

Chapter 21

Business, The Economy and Government

(Impact of Economic Variables – Inflation, Interest Rates, Unemployment, Exchange Rates, Taxation; Impact of Business; Governments Role/Regulation/Labour Force)

2015 Short – Q7

- (a) Explain the term *exchange rate*.
 (b) Describe two possible risks which *exchange rates* could present for businesses in Ireland
MS: (a) 6m (3+3) (b) 4m (2+2) (Similar Q asked in 2010 Q3 Short)

(a) This is the **price of one currency expressed in terms of another currency**.

(b) If the **euro increases in value** relative to \$/£, Irish **exports** are more **expensive abroad/less competitive abroad**, which is bad for Irish business as sales and profits will decrease.

If the **euro falls in value** relative to the \$/£, **imported raw materials** will become more **expensive** e.g. imports of oil, which may result in businesses increasing their prices or **reducing their profit margins**.

2014 Q5 – Short

- (a) Explain the term 'interest rate'.
 (b) Outline **two** possible economic impacts of low interest rates for Irish businesses.
MS: (a) 4 (2+2) (b) 6 (3(2+1)+3(2+1))

(a) The **cost/price** of borrowed money expressed as a % of the amount borrowed, or the **return/reward** on money saved over a period of time expressed as a % of the amount borrowed.

(b) Cheaper to borrow, so could **encourage spending** by consumers. **Cheaper mortgage repayments**, more disposable income for consumers.

Encourage **investment** as the return on **savings** is **low**, helps entrepreneurs.

2013 Q8 – Short

Column 1 - Terms	Column 2 - Explanations
1. Exchange Rate	A. The increase in the value of goods and services produced in an economy from one year to the next
2. Interest Rate	B. Is measured by the Consumer Price Index (CPI).
3. Taxation	C. Is measured by the live register.

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4. Economic Growth	D. Can be progressive or regressive.
5. Inflation	E. The price of one currency expressed in terms of another currency.
	F. The cost of borrowing money.

Answer: 1E; 2F; 3D; 4A; 5B

2016 Q3 Short

True or False:

1. Inflation refers to the decrease in the cost of living from one year to the next.
2. An increase in the value of the euro (€) against sterling (£) has a negative impact on Irish exports to the UK.
3. Decrease in unemployment results in an increase in PAYE revenue for the Government.
4. High interest rates stimulate business expansion.
5. A recession represents an upturn in the economy and an increase in demand.

MS: 3+3+2+1+1

FALSE; TRUE; TRUE; FALSE; FALSE

2017 – Short – Q10

Outline your understanding of the terms **inflation rate** and **interest rate**.

It is the **rate (%) of increase** in the **general price of goods and services** in an **economy** measured over a **time period** (usually a year, measured by the **Consumer Price Index (CPI)**).

This is the **cost of borrowing money, expressed as a percentage of the sum borrowed**. Can be quoted as **APR (Annual Percentage Rate)**.

2015 Q2 (B)

Discuss the economic effects on the Irish economy of the growth in employment in recent times. (20 marks)

MS: 4 @ 5m (2+3) (Q could ask about the increase of unemployment)

1. As people have more **discretionary income**, people will spend more on **luxury items**. Consumer **confidence** grows and people start to spend again e.g. increase in demand for **houses, new cars, holidays...**

2. **Future outlook** for the economy improves (**business confidence**), leading to more **investment** and **entrepreneurial activity**. Rate of unemployment in Ireland has declined from 14.2% in 2011 to 9.9% in April 2015. The demand for goods and services has increased and **new businesses open** or **expand** due to increased business profits.

3. Government **current expenditure** should **decrease** as the unemployed become employed, thereby **reducing social welfare claims**, and their **revenue** should **increase** through increases in **PAYE** from workers and **VAT** from their spending.

This should allow the Government to **increase expenditure** on **Infrastructure, Education, Health, Public Sector Wages...**

4. **Emigration should fall** and less Irish should have to leave the country in search of jobs (known as "brain drain"). A particular problem for the economy was the **exporting of skilled, educated and experienced labour** (labour that went through government funded third level education) only to have to move abroad to find employment and not **contribute** to the Irish economy.

Other: Lead to Economic growth/ More FDI as economy growing/ Lower Government borrowing as less pressure on their budget

2018 Q2 (B)

Outline the benefits **and** challenges of increasing employment for the Irish economy.

MS: 1@7(4+3) 3@6(3+3) Only one government point accepted

Benefits

- **Increased income** for employees will **increase consumption spending**/higher standard of living
- Increased **taxation revenue for the government** will lead to an improvement in public services or assist in paying of national debt/Reduction in Social Welfare as there is less unemployment.
- **Increased confidence and local pride** will mean more vibrant communities
- **May attract foreign direct investment** as the reputation of 'Ireland.inc' improves.
- Increase in the level of construction activity (very labour intensive activity): increased income will lead to more home buying and renovation. Business premises will also need to be built.
- **Improved infrastructure** will need to be provided to facilitate the increase in employment (improved DART, Luas Cross City and Metro system)
- **Political Stability/greater social cohesion.** Generally the electorate becomes more settled when employment levels are high.
- **Less emigration** as more employment is available in Ireland/fall in "brain drain".

Challenges

A **skills shortage** may exist as some skills are in high demand (e.g. programmers, chefs, hospitality service)/Difficulty finding workers to fill vacancies.

Pressure may be put on housing stock resulting in a rise in rents and a lack of suitable accommodation in critical areas.

The **lack of affordable accommodation** may also reduce the attractiveness of Ireland as a location for multinational companies.

Improvements in infrastructure take a long time to occur. A **commuter culture** may be created where employees are forced to travel long distances to get to work.

A commuting culture may create 'commuter towns' where residents are only present in the area in the evening. This can limit the development of community activities such as GAA Clubs and tidy towns committees as residents spend less time at home.

High consumption spending leads to **inflation** which in turn causes **wage demands** affecting business competitiveness.

In an effort to curb wage claims new contractual arrangements may reduce the quality of life of employees in low skilled jobs. (Part time employment, Zero hours contracts/the "gig economy").

Immigration may increase as people come to Ireland seeking employment. This may result in cultural conflict.

In times where the increase in employment takes place in large cities, rural communities can fall into decline as residents leave the area to take employment in urban areas.

2013 Q2 (B)

Outline the role of the Irish Government in encouraging and in regulating business in Ireland. (20 marks)

MS: 4 @ 5 marks (2+3); at least one from each

State Agencies

Enterprise Ireland (grant aid to indigenous industry), **Local Enterprise Offices (LEO)**, **IDA Ireland** (provides grant aid to attract FDI) all encourage different business activities through **advice, training, mentoring, grants, market research...**

Government Planning

This creates a **stable and more predictable future economic environment**, encouraging businesses to expand etc...

Government National wage agreements allow businesses to predict their **future wage costs**, as well as reducing the risk of **industrial relations** problems during the agreement.

Other: Taxation (e.g. tax breaks for expansion) / State Expenditure (e.g. subsidizing training courses/feasibility grants)

Consumer Laws

The Consumer Protection Act 2007 led to the development of **The Competition and Consumer Protection Commission** which allows complaints from consumers against business.

The Sale of Goods and Supply of Services act 1980 gave rights to the consumer in relation to goods or services bought or hired.

Employment Law

The government regulates business in order to **protect the employees** in the workplace with **legislation on unfair dismissal, equality and industrial relations**. E.g. **Employment Equality Act 1998, Industrial Relations Act 1990**

Other: Data Protection Act of 2003

2012 Q2 (B)

Outline how the Irish Government's policy of increased taxation and decreased public expenditure is impacting on business. (20 marks)

MS: Taxation 2 @ 5 (2 + 3) Expenditure 2 @ 5 (2 + 3)

This question is relevant to that economic climate so answers less relevant now, but sample answers shown for reference

Increased Taxation: Value Added Tax (VAT)

VAT increased from 21% to 23% on adult clothes and shoes, motor vehicles, petrol, electrical supplies, furniture, alcoholic and soft drinks, and tobacco.

This will **decrease the demand for business** on such goods as they are now more expensive for consumers to buy

Increased Taxation: Household charge

A €100 charge was introduced for over 1.5 million homeowners around the country in March 2012. This will reduce consumer spending as the tax is **new**, so they will have to pay it instead of purchasing goods/services.

Other: Excise duty on a packet of 20 cigarettes was increased by 25 cent (including VAT) – can lead to increase in activity in the Black Economy / DIRT up 27% -> 30%

Decreased Public Expenditure Education Savings

The Government raised the **pupil-teacher ratio** in classrooms, saving €19.4m. The impact on business is **less educated** future employees as students will get less personal attention with higher classroom numbers.

Decreased Public Expenditure Public Sector Jobs

By the end of 2012, the numbers employed in the public service will be **below 300,000**. Public sector to be **cut** by another **6,000** in 2013. The impact on business is that more people will be **unemployed**, so they will **have less income**, and the government will have increased social welfare payments.

Other: Social Welfare Savings/Healthcare Savings/Capital Expenditure e.g. Metro North, Underground Dart

2016 Q2 (A)

In the Government's Budget 2016, the national minimum wage was increased from €8.65 to €9.15, an increase of 50 cent per hour.

Discuss the different ways in which the Irish Government affects the labour force in Ireland. (20 marks)

MS: 4@ 5 marks (2+3) (Appeared in 2010 also)

1. Government investment in the country's infrastructure (building of new motorways, schools, hospitals etc.) leads to an increase in the number of workers employed in the construction industry.

Improved infrastructure encourages other businesses to operate here, increasing employment.

2. Short-Term Courses and training schemes offered by Solas and at third level will result in a more skilled, educated and employable work force.

This will encourage Indigenous business and foreign business to set up here.

3. Grants and incentives to foreign companies (e.g. by IDA Ireland) to locate in Ireland will result in foreign industry providing employment to the Irish labour force.

The government has recently attracted lots of global IT companies like Facebook, LinkedIn and Google to Ireland, increasing jobs.

4. The Irish Government encourages the development of enterprise through supports provided by Local Enterprise Offices (LEO) and Enterprise Ireland, increasing jobs as more new businesses are started.

Other: As an Employer/Taxation Policies/ National Wage Agreements

2009 Q2 (C)

Discuss how the Irish Government could use the tax system to create a positive climate for business in Ireland. Use examples to illustrate your answer. (20 marks)

MS: 4 @ 5 marks (2+3)

This answer must be up to date with current trends in taxation e.g. rates and increases/decreases, but can be based around the following information:

1. Reduction in PAYE rates should increase spending power and stimulate demand for goods and services.
An increase in PAYE rates could provide opportunities to reduce rates/ water charges and fund business supports
2. A reduction in Corporation Tax may improve company profits, and the ability to fund future growth of the business, increasing the number of employees they will need.
3. Changes may re-stimulate demand in the construction sector if stamp duty is lowered, making it cheaper for people to buy houses.
4. An increase in tax credits may stimulate demand for goods and services, as it will mean more disposable income for PAYE earners.
5. Reduction in VAT, reduces cost of goods and services, stimulates demand – makes Irish economy more competitive

2016 Q9 Short

Distinguish between VAT and Corporation Tax

MS: 6m (3+3) + 4m (2+2)

VAT (Value Added Tax) is a **tax on goods and services** paid by both **consumers and business**/tax on consumer spending. **The standard rate is 23%**. Some goods and services being sold **have 0% VAT (Medicine, Food staples etc.)**.

Corporation Tax is an annual tax on **company's profits**. The corporation tax rate in Ireland is currently **12.5%**, one of **the lowest corporation tax rates worldwide**. The tax is calculated based on a company's **net profit position**.