

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 – Answer: 1E; 2F; 3D; 4A; 5B

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.
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.

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 can also ask about the increase of unemployment)

More Disposable Income

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...**

Business Confidence

Future outlook for the economy improves, 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.

Increase in Government Spending

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...**

Less "Brain Drain"

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

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)

Infrastructure

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.

Increased spending on education/ training

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.

Attracting Foreign Direct Investment

Grants and incentives to foreign companies 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.

Entrepreneurship

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:

PAYE

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

Corporation Tax

A reduction in Corporation Tax may improve company profits, and the ability to fund future growth of the business

Stamp Duty

Changes may re-stimulate demand in the construction sector if stamp duty is lowered, making it cheaper for people to buy houses.

Tax Credits

An increase in tax credits may stimulate demand for goods and services, as it will mean more disposable income for PAYE earners.

VAT/Excise Duties

Reduction in VAT, reduces cost of goods and services, stimulates demand – makes Irish economy more competitive

Tax Incentive Schemes

Promote the establishment and expansion of business e.g. giving tax breaks for businesses to set up in underdeveloped areas.