**Economy** → all the producers, distributors and consumers of goods and services in a country. The area where money is being spent.

**Economic Growth** → any *increases* in the *financial value* of *all* the goods and services produced from a country’s *same resources* over a *period of time* (comparison)

**Economic Boom** → when the level of economic activity increases rapidly

**Economic Recession** → when economic growth ceases or goes into decline

**Economic Variables that impact of a business:**

1. Unemployment
2. Inflation
3. Interest rates
4. Taxation
5. Exchange rates

**These impact on three key areas of business:**

1. Business sales
2. Business costs
3. Business confidence (influences investment and expansion)

**Unemployment** → the percentage of the labour force that do not have a job, and are available to work.

January 2008 - 4.9%  
July 2009 - 12.5%  
August 2012 - 14.7%  
September 2015 - 9.4%  
January 2017 - 7.2%

December 2018 - 5.3%

Increasing unemployment in Ireland affects a business as follows:  
1. The government increases taxes to pay for the extra social welfare it must give the unemployed  
2. More unemployed people means less money spent in shops  
3. It can lead to lower wages because some people will be willing to work for low wages rather than stay on social welfare.  
4. Higher unemployment may lead to an increase in crime in society

* **Sales**: ↓ sales = ↓ demand
* **Costs**: ↓ demand for wage increases + ↑ ease of staff recruitment = ↓ costs

↑ government taxes (due to ↑ welfare needs), ↓ immigration

* **Business Confidence**: ↓confidence = ↓ enterprise + ↑ government spending to deal with social problems = ↑ taxes = ↓ profitability

**Inflation** → a *rise* in the *average prices of goods* in the economy, measured by the *Consumer Price Index*

July 2008 4%  
July 2009 -2.6%  
August 2012 2%  
December 2016 0%

December 2018 0.6%

Increasing inflation is bad for the economy because:  
1. Workers ask for higher wages to enable them to afford the higher prices in shops   
2. Consumers don’t buy as much in shops because they can’t afford to pay the higher prices   
3. The cost of business’s materials increases

* **Sales**: ↑price-sensitive consumers = ↓ sales for discretionary
* **Costs**: ↑costs of raw materials = ↑ demand for cost of living wage increases = ↑costs, ↓ profitability
* **Business Confidence**: ↑uncertainty

**Deflation** → a decrease in the average prices of goods in the economy. It typically occurs when there is a shortage of money or credit in the economy.

Ideal = steady, low **in**flation

**Interest Rates** → the cost of borrowing money (minimum set by the European Central Bank for euro zone countries)

An increase in interest rates increases loan repayments, which means:  
1. Businesses can’t afford the higher loan repayments and don’t take out loans to expand  
2. The repayments on the business’s existing loans increase  
3. Higher mortgage repayments leave consumers with less income to spend

* **Sales**: ↓loan affordability = ↓sales
* **Costs**: ↑Costs = ↓profitability
* **Business Confidence**: ↓investments (investors put money in deposit accounts instead) = postponed/scaling back of start-ups/expansions

**Exchange Rates** → the price of one currency expressed in terms of another. The exchange rate for the euro tells you how much €1 is worth in terms of another currency.

The exchange rate for the euro impacts on Irish business in a number of ways:  
1. When the euro increases in value, the price of Irish products sold in non-euro (UK & USA) country increases.  
2. When the euro increases in value, the price of foreign goods sold in Ireland decreases. Irish people buy more foreign goods. It also means Irish businesses pay less for imported goods which may increase its profits.

* **Sales**: ↑price of Irish exports = ↓non-euro sales
* **Costs**: ↓ cost of imports = ↓ business costs = ↑ profitability
* **Business Confidence**: Stability = easier to plan = ↑ confidence

**Taxation** → the compulsory payment that must be made to the government in return for the benefits of living and doing business in Ireland.

Increasing taxes is bad for the business because:  
1. Business have to give more of their profits to the government  
2. If PAYE and PRSI taxes on employee’s wages increase, employees have less disposable income to spend in shops.  
3. Higher VAT added to the price of products sold in shops makes them more expensive.

* **Sales**: ↑income taxes = ↓discretionary expenditure
* **Costs**: ↑Costs = ↓profitability
* **Business Confidence**: ↓confidence = ↓ enterprise

**How does business impact on the national/local economy?**

**Economic Benefits**:

* Job creation: direct and indirect = less unemployment
* Boost tax revenue = improved infrastructure
* Develop local economic self-reliance and resilience
* Wealth creation = for entrepreneur and employees to be invested or spent
* Competition = can lead to lower prices for customers

**Social Benefits**:

* Promote social cohesion = less likely to experience social decay
* Enhances quality of life e.g. services
* Sponsorship of local activities (sports, arts etc)

**Possible Negative Effects**:

* Local economic shocks: local business closures due to competition = ↑ unemployment = ↓ quality of life = ↓ tax revenue and ↑ social welfare payments
* Socially and environmentally irresponsible businesses (in an attempt to cut costs)

**The Government and Businesses**

Why does the Government regulate businesses in Ireland?

1. Protect the Environment  
    - Environment Protection Agency
2. Protect the Consumer  
    - Sales of Goods & Supply of Services Act 1980  
    - Consumer Protection Act 2007
3. Protect Employees  
    - Unfair Dismissals Act 1977-2007  
    - Employment Equality Act 1998-2008  
    - Industrial Relations Act 1990
4. Protect the Public  
    - Data Protection Act 2003

How the Government affects the Labour Force:

1. Taxes - If the government keeps the rates of PAYE, PRSI and USC low, it means the employees have more disposable income to spend.
2. Government Expenditure - Infrastructure projects (Luas extension) helps to increase the number of jobs available to the labour force.   
   The money the government spends on education, leads to highly educated and skilled workers. This attracts TNC’s to Ireland.
3. Creates Employment - The Irish government is the biggest employer in Ireland. It employs people in the civil service, public service and in state owned enterprises (250,000 employees)
4. Government Regulation -

Industrial Relations Act 1990  
 Unfair Dismissals Act 1977/2007  
 Employment Equality Act 1998-2008  
 Companies Act 1990  
 Data Protection Act 2003  
 Sale of Goods and Supply of Services Act 1980  
 Consumer Protection Act 2007  
  
How the Government Creates a Suitable Business Climate:

1. Government Expenditure - Capital and Current Spending   
   a. Buys products and services from businesses each year.   
   B. Improve our infrastructure   
   c. Pay wages and social welfare
2. Government Taxation  
   Lower PRSI – lowers business contributions to the government   
   Lower self-assessment tax and corporation tax – increases profits and encourages businesses  
   Lower PAYE and USC – increases disposable income
3. Government Grants - Grants make it cheaper for businesses to set up. Attracts TNC’s to Ireland.
4. Government Agencies - Enterprise Ireland (aims to help Irish businesses internationally)  
   **Provides information** on international markets (Get Export Ready - step by step guide) **Provides grants** to help businesses export to foreign markets. **Networking** - distribution partners worldwide to identify potential customers   
   IDA Ireland  
   **Attracts transnational companies** to come to Ireland, by offering them grants and **providing information** about operating their business in Ireland.