Chapter 3

Chapter 3 Ordinary Level Questions

Q1. True or False: Tick (✓) the correct box for each statement:

Statement	True	False
High inflation may lead to higher wage demands from staff.	✓	
When inflation rises, businesses are likely to lower their prices.		✓
CPI stands for Cost of Production Index.		✓

Q2. *The cost of electricity and petrol has increased again in 2025.*
Explain one possible impact this trend might have on a business in Ireland.

Rising energy and fuel costs increase the cost of production.
Businesses will have to spend more on utilities and transport, which may reduce profit margins unless prices are increased.
Example: A delivery company may raise its service charges to cover the higher cost of petrol.

Q3. *In Q3 2024, 2.79 million people were in paid employment in Ireland.*
Outline one benefit for businesses when employment levels are very high in Ireland

High employment increases consumer spending.
When more people have jobs, income levels rise, which boosts demand for goods and services.
Example: A supermarket may see higher sales due to increased local spending.

Q4. Match the definition to the term.

A. Percentage of people actively seeking work but not currently employed	1. Employment Rate
B. A rate of about 4% unemployment, allowing for people between jobs	2. Unemployment Rate
C. The percentage of people aged 15–64 in paid work	3. Full Employment

A	B	C
2	3	1

Q5. *"Irish interest rates dropped from 3.75% to 2.5% in less than a year."*

(i) What is meant by the term *interest rate*?

The interest rate is the cost of borrowing money, expressed as a percentage.
It also represents the return earned on savings or deposits.

(ii) Explain two ways this trend might benefit a business planning to expand.

1. **Lower borrowing costs / easier to expand**
Loan repayments will be cheaper, making it more affordable to borrow money for expansion.
Example: A café might take out a lower-interest loan to renovate or open a second branch.

2. **Increased consumer spending**
With lower loan and mortgage repayments, customers have more disposable income to spend on goods and services.
This could lead to higher sales for retailers or hospitality businesses.

(iii) Distinguish between *economic growth* and *economic development*.

Economic growth is an increase in the total value of goods and services produced in a country. It is usually measured by GDP or GNP growth over time.
Economic development includes economic growth plus improvements in living standards and social progress. It considers access to education, healthcare, and overall quality of life, often measured by the Human Development Index (HDI).

Chapter 3 Higher Level Questions

Q1. Explain two ways in which rising inflation can negatively affect the development and growth of small Irish businesses like coffee shops.

1. **Inflation raises input and operating costs** Costs for ingredients, electricity, and rent increase, leading to tighter profit margins. Small businesses may struggle to absorb these costs without increasing prices. *E.g. A coffee shop may face higher prices for milk, coffee beans, and energy, reducing profitability and opportunities to expand.*
2. **Wage demands increase due to rising living costs** Employees are likely to seek higher wages to maintain their standard of living, which increases payroll costs for a business, reducing profits. *This may limit the ability of small cafés to hire extra staff or invest in new equipment.*

Q2. *'Employment in Ireland rose by 98,600 people between Q3 2023 and Q3 2024.'*
Analyse one benefit and one challenge of this increase for a business looking to expand.

Benefit - Higher consumer spending boosts demand When more people are earning wages, household spending rises, which supports business revenue growth. This creates a more stable and attractive environment for expansion as businesses can expect increased sales. *E.g. A retail business may see more footfall and purchases during periods of high employment.*
Challenge – Labour shortages in key sectors As employment rises, the pool of available workers shrinks, making it harder to fill roles, especially in high-demand sectors. This can delay expansion or force businesses to offer higher wages, increasing costs of production. *E.g. A tech firm expanding operations might face difficulty hiring programmers or digital marketers.*

Q3. (i) What is meant by the term *interest rate*?

An interest rate is the cost of borrowing money, expressed as a percentage of the loan. It also represents the return earned by savers who deposit money.

(ii) Explain how a sharp increase in interest rates could affect the expansion plans of a small Irish business.

1. **Higher loan repayments reduce affordability** Borrowing becomes more expensive, making it harder for small businesses to finance expansions. *For example, a bakery might delay purchasing a new oven due to increased loan costs.*
2. **Lower consumer spending weakens demand** Higher interest rates mean consumers have less disposable income, reducing sales. A small retail business may experience a drop in demand for non-essential products.
3. **Falling confidence among investors and lenders** Banks are more cautious, and investors seek safer returns, reducing external funding options. Small businesses may find it harder to attract funding or get approved for loans.

Q4. Discuss two impacts increased economic growth in the Irish economy would have on a business looking to expand it's operations.

1. **Increased economic growth boosts consumer demand and business confidence.** When the economy grows, employment and income levels typically rise, which leads to greater consumer spending. Businesses benefit from stronger sales performance and are more likely to forecast continued demand, making expansion less risky. This economic optimism can also encourage businesses to explore new markets, invest in innovation, or scale up operations.
2. **It improves access to finance and government support.** In a growing economy, financial institutions are more willing to lend due to reduced risk of default, making it easier for businesses to secure expansion capital. Governments also benefit from increased tax revenues during economic growth and may introduce new grants or infrastructure investment, further reducing barriers for business expansion. This environment supports long-term planning and investment by firms.

Q5. '*Consumer sentiment fell sharply in Ireland after a spike in mortgage interest rates.'*
Discuss the possible impacts on **business investment**, **consumer spending**, and **overall growth** for a business operating in Ireland.

Business investment Falling consumer sentiment reduces business confidence, making firms more cautious about committing to capital projects or expanding operations. Businesses are less likely to invest in new products, equipment, or locations if they anticipate weaker consumer demand. This reluctance can lead to a slowdown in innovation and limit the development of long-term strategies.
Consumer spending Lower consumer confidence often leads households to reduce discretionary spending and focus on saving. When consumers feel uncertain about their financial future, especially due to higher mortgage repayments, they are less likely to make non-essential purchases. This shift in behaviour directly affects business revenue and weakens the domestic market, particularly in retail and services.
Overall growth Reduced investment and spending lead to slower business development and job creation, which in turn affects overall economic growth. A sustained drop in confidence can trigger a negative cycle, lower sales reduce profits, which reduces tax revenues and business reinvestment, further dampening economic activity. This environment makes it harder for businesses to scale, hire, or enter new markets.

Q6. Outline the value of the business economy in Ireland in terms of **Gross Value Added** and **employment** for a recent year.

Gross Value Added In 2023, economic activity in Ireland generated **€484 billion** in gross value added across sectors such as manufacturing, services, and construction.
Employment In Q3 2024, approximately **2.79 million people** were employed in Ireland, showing strong labour market participation and business activity.