Chapter 3 Class Exam

Name:________________ Score:____________

Answer all questions

Suggested Exam Length: 30 minutes

Student Input (Pre-exam)

How confident are you about this exam?

What topic am I worried about before I look at the exam? Why?

What strategies did you use to study for this exam? What was the best one?

Which activities in class did you most enjoy for this topic?

Student Reflection (Post-exam)

How happy were you with your result?

What were the hardest questions? Why?

Is there any exam technique I should change/use again for my next exam?

What topics should I look over again?

(a) Explain the impact three of the following economic indicators have on business growth in Ireland:

Inflation **Interest Rates** **Exchange Rates** **Employment**

1.
2.
3.

(b) Consumer confidence measures how optimistic people feel about their finances and the economy.
Explain two ways a fall/decrease in consumer confidence in Ireland might impact on business growth for Irish based SMEs

1.
2.

(c) Outline the value of the business economy in Ireland in terms of **Gross Value Added** and **employment** for a recent time period (e.g. a Quarter or Year).

Gross Value Added
Employment

Chapter 3 Marking Scheme – Total 38 marks

(a) 18m – 3 @ 6m (3+3)

Inflation

Inflation is a rise in the general level of prices in an economy from one time period to the next.
When inflation is high, input costs such as wages and raw materials increase, profits are squeezed, and growth is restricted.
When inflation is low, costs are more stable, consumers spend more, and growth opportunities increase.

Employment

Employment rates measure the percentage of the labour force in paid work.
When employment is high, incomes and spending rise, creating demand and encouraging expansion, though businesses may also face skill shortages and higher wage demands.
When employment is low, spending falls, demand is weaker, and growth slows.

Interest rates

Interest rates are the cost of borrowing expressed as a percentage.
When interest rates are high, loan repayments rise for businesses and consumers, profits fall, sales decline, and expansion is less likely.
When interest rates are low, borrowing is cheaper, spending increases, and businesses are more willing to invest and grow, directly supporting business expansion.

Economic Growth and Development

Economic growth is an increase in the value of goods and services produced in a country, while development also considers improvements in quality of life.
High growth leads to higher incomes, increased consumer spending, more investment, easier access to finance, and higher government revenue that can support business growth.
Low or negative growth reduces spending, discourages investment, makes finance harder to access, and weakens confidence, limiting expansion opportunities.

Exchange Rates

Exchange rates measure the value of one currency expressed as another.
When the euro is strong, Irish exports become more expensive abroad, reducing competitiveness and limiting growth for Irish exporters. Imports become cheaper, which can also raise competition against Irish businesses from abroad, limiting growth.
When the euro is weak, exports become cheaper and more competitive, good for growth, but the cost of importing raw materials rises, squeezing profit margins and slowing expansion.

Consumer Confidence
Consumer confidence measures how optimistic people feel about their finances and the economy. High consumer confidence leads to greater spending on non-essential goods and services, encourages expansion, and makes it easier for businesses to attract investment or bank loans. Low consumer confidence reduces spending, slows expansion plans, and makes investors and banks more cautious about providing finance.

(b) 12m – 2 @ 6m (3+3)

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 business expansion.

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 negatively affects business revenue and weakens expansion opportunities, particularly in retail and services.

Overall growth
Reduced investment and spending from lower consumer sentiment can 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.

(c) 8m – 4 @ 2m

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.