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Chapter 3 Business and the economy

3.1 Explain how economic indicators can impact on business development and growth.

HL Paper 1 Q2 (d)

Grá Chocolates was founded in Galway by Gráinne Mullins. Handmade in small batches, the exquisite artisan confections blend the finest raw ingredients with native Irish flavours.

Gráinne has decided that it's time to build a permanent headquarters for Grá Chocolates.

Gráinne plans to build her own chocolate factory, using the Crowdfunding platform Kickstarter, to fund the expansion.

(d) The increasing rental costs have motivated Grainne to build the new factory.

Explain the impact of **three** economic indicators on business growth.

1
2
3

HL Paper 1 Q2 (d) Solution

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.

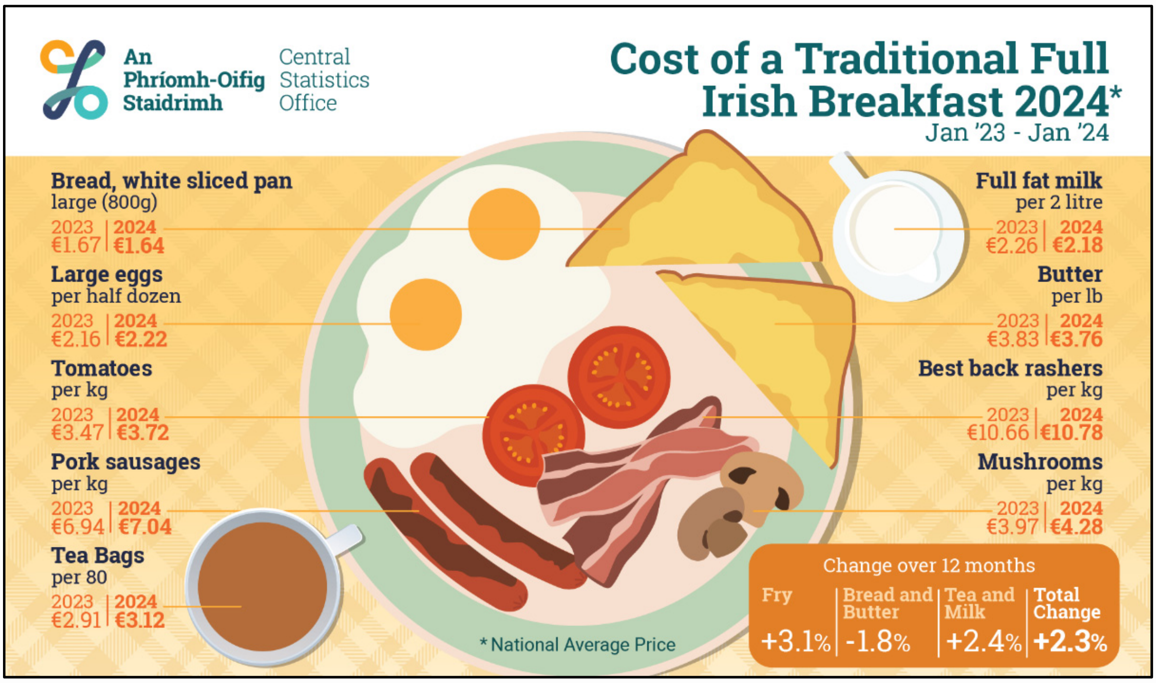
Consumer Confidence

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.

HL Paper 2 Q5 (c) (i)

(c)



(i) Explain the economic indicator most relevant to the infographic above.

HL Paper 2 Q5 (c) (i) Solution

Inflation is a rise in the general level of prices in an economy from one time period to the next. It is measured in Ireland by the Consumer Price Index (CPI), which tracks changes in the cost of a basket of goods and services.

When inflation is high, the value of money falls as consumers can buy less with the same amount of income. This raises costs for businesses, such as wages and raw materials, and often reduces consumer demand. Lower profits and weaker competitiveness make it harder for businesses to expand.

When inflation is low and stable, costs are predictable, spending is stronger, and business growth is more likely.

OL Paper 1 Q5 (d)

Alice Kelly, a 21-year-old baker, with 1.4 million TikTok followers, turned a horse box into a mobile bakery. She is now aiming to grow her business despite inflation challenges.

(d) Outline **one** impact inflation may have on Alice's business.

OL Paper 1 Q5 (d) Solution

One impact inflation may have on Alice’s business is **higher costs of raw materials and wages**. If her suppliers increase prices, Alice’s expenses for cake ingredients rise and her profit margin is reduced for each cake sold. This makes it harder for her to keep prices low for customers and may limit the growth of her business.

OL Paper 2 Q2 (c)

(c) Below are three economic indicators. Choose **one** of these and explain how it may impact on business development and growth in Ireland.

- Inflation
- Employment/Unemployment Rates
- Interest Rates

Indicator:
Explanation (how it may impact business development and growth in Ireland):

For practice lets do all three:

Indicator:
Explanation (how it may impact business development and growth in Ireland):

Indicator:
Explanation (how it may impact business development and growth in Ireland):

OL Paper 2 Q2 (c) Solution

Inflation

If inflation is high, prices of goods and services rise. Businesses face higher costs for raw materials and wages, which reduces their profits and makes it harder to expand. If inflation is low, costs are more stable and consumers spend more, helping businesses to grow.

Employment/Unemployment Rates

If employment is high, more people are earning money and consumer spending increases, which helps businesses to sell more and expand. However, high employment can also mean skills shortages and wage increases. If unemployment is high, spending falls and businesses struggle to grow.

Interest Rates

If interest rates are high, businesses and consumers pay more to borrow money. This reduces spending and investment, slowing business growth. If interest rates are low, borrowing is cheaper, demand is higher, and businesses are more likely to expand.