

1 (2007)

10. (a) State-owned enterprise in ‘production’ category (name): ESB
- (b) **Two** reasons for state involvement (explain):
- Essential service
  - Economic Infrastructure/development.

2 (2011)

**Question 6**

Outline **two** ways the Government could encourage business activity in Ireland.

- (i) A low corporation tax rate of 12.5% encourages foreign direct investment, thereby increasing businesses in Ireland  
Low personal taxation in the form of lower PAYE and DIRT gives employees and consumers more disposable income and **increases the demand for the goods and services provided by business.**
- (ii) Improved infrastructure such as roads, airports, ports, telecommunications and broadband allow business to operate efficiently and **encourages business activity and job creation.**
- (iii) More Education and Training provided by State agencies such as FÁS can ensure a steady **supply of skilled workers to meet the needs of business.**
- (iv) Grant aid for business start-up and expansion e.g. County and city enterprise boards give up to €20,000 feasibility/innovation grants where entrepreneurs match at least 50% of the costs. Business expansion grants of up to €80,000 are available for sole traders, partnerships, community or limited companies. SEED and BES schemes for companies exporting or companies having export potential.
- (v) Better regulatory environment encourages the growth and expansion of business.

3 (2014)

Question	Possible Response	Max mark
1	<p>Outline <b>two</b> benefits of local business for a local community:</p> <p><b>Employment/jobs</b> direct employment in the community (in the business itself)  <b>Spin-off businesses-</b> employment in spin-off businesses such as transport, suppliers, cleaning services etc.  <b>Increased disposable incomes</b> leading to an improved standard of living, leading to increased spending in the local community thereby encouraging other businesses.  <b>Growth in local services</b> to meet the needs of local businesses (taxi services, banks, credit unions etc.). Local people in the community can avail of these services.  <b>Community spirit and quality of life.</b> Successful local business improves community spirit and social interaction between citizens.  <b>Taxation:</b> Local rates, taxes and service charges contribute to development of local infrastructure.  <b>Culture of enterprise:</b> encourages more businesses to develop.</p>	10

2	(A)	<ul style="list-style-type: none"><li>• <b>Limited Liability.</b> Members' personal assets cannot be sold to pay business debts in the event of insolvency.</li><li>• <b>Members usually have a common bond (e.g. residents in a local area).</b> Members feel they are doing business with people they know.</li><li>• <b>Members have a say in how the business is run.</b> Members are invited to the AGM and can vote on issues such as the dividend/ Decisions are made on the basis of "One Member One Vote".</li><li>• <b>Members' savings are used for the mutual benefit of all members</b> of the credit union. Once members have saved with the credit union they can borrow at fixed rates of interest.</li><li>• Credit Unions can provide a wide range of <b>low cost banking services</b> as they are not concerned with profit levels as much as commercial banks. There are no transaction charges on loans or saving accounts. They provide a safe place to save, and to borrow at reasonable rates.</li><li>• Every credit union is a 'not-for-profit' financial co-operative. <b>Surplus income generated is returned to the members as a dividend</b> to savers and interest-rebate to borrowers or it may be directed to improved or additional services for members.</li><li>• The credit union also works in co-operation with the local community.</li><li>• Credit Unions promote thrift and the use of members' savings for the mutual benefit of all members.</li></ul>	2@7(4+3) 1@6(3+3)
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2	(B)	<p>Possible responses include:</p> <p><b>Benefits</b></p> <ul style="list-style-type: none"> <li>• <b>Increased income</b> for employees will <b>increase consumption spending</b>/higher standard of living</li> <li>• Increased <b>taxation revenue for the government</b> will lead to an improvement in public services or assist in paying of national debt/Reduction in Social Welfare as there is less unemployment.</li> <li>• <b>Increased confidence and local pride</b> will mean more vibrant communities</li> <li>• <b>May attract foreign direct investment</b> as the reputation of ‘Ireland.inc’ improves.</li> <li>• Increase in the level of construction activity (very labour intensive activity): increased income will lead to more home buying and renovation. Business premises will also need to be built.</li> <li>• <b>Improved infrastructure</b> will need to be provided to facilitate the increase in employment (improved DART, Luas Cross City and Metro system )</li> <li>• <b>Political Stability/greater social cohesion.</b> Generally the electorate becomes more settled when employment levels are high.</li> <li>• <b>Less emigration</b> as more employment is available in Ireland/fall in “brain drain”.</li> </ul> <p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>• A <b>skills shortage</b> may exist as some skills are in high demand (e.g. programmers, chefs, hospitality service)/Difficulty finding workers to fill vacancies.</li> <li>• <b>Pressure may be put on housing stock</b> resulting in a rise in rents and a lack of suitable accommodation in critical areas.</li> <li>• The <b>lack of affordable accommodation</b> may also reduce the attractiveness of Ireland as a location for multinational companies.</li> <li>• Improvements in infrastructure take a long time to occur. A <b>commuter culture</b> may be created where employees are forced to travel long distances to get to work.</li> </ul>	<p>1@7(4+3) 3@6(3+3)</p> <p>Only one government point accepted</p>
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- A commuting culture may create 'commuter towns' where residents are only present in the area in the evening. This can limit the development of community activities such as GAA Clubs and tidy towns committees as residents spend less time at home.
- High consumption spending leads to **inflation** which in turn causes **wage demands** affecting business competitiveness.
- In an effort to curb wage claims new contractual arrangements may reduce the quality of life of employees in low skilled jobs. (Part time employment, Zero hours contracts/the "gig economy").
- **Immigration** may increase as people come to Ireland seeking employment. This may result in cultural conflict.
- In times where the increase in employment takes place in large cities, rural communities can fall into decline as residents leave the area to take employment in urban areas.

**Other relevant points are marked on their merits.**

2	(C)	<p>Enterprise Ireland has the responsibility for developing Indigenous Irish industry with an export focus. It is focused on helping Irish-owned business with 10 or more employees seeking to deliver new export sales. The Irish software sector is one area that Enterprise Ireland supports.</p> <ul style="list-style-type: none"> <li>• Funding supports - a range of supports, for start-ups, expansion plans, and R&amp;D business plans. Enterprise Ireland provides funding and supports for companies - from entrepreneurs with business propositions for a high potential start-up through to large companies expanding their activities and growing international sales. It provides equity investment for business. Its Seed Venture Capital Scheme supports the development of high-growth companies.</li> <li>• Export assistance - Enterprise Ireland provides international offices that can assist in the growth of exports by providing marketing services/connections and introductions to potential customers overseas.</li> <li>• Supports to develop competitiveness - helping companies to become leaner to make them more competitive in international markets.</li> <li>• Incentives to stimulate in-company R&amp;D – new product, service and process development to ensure sustainability, and growth through the evolution of products and services.</li> <li>• Assistance with R&amp;D collaboration - with research institutions, to develop and bring to market new technologies, products or processes. Enterprise Ireland provides supports for both companies and researchers in Higher Education Institutes to develop new technologies and processes that will lead to job creation and increased exports.</li> <li>• Connections with and introductions to customers overseas - access to a global network of contacts - from heads of government to end customers. Enterprise Ireland provides a programme of trade missions, trade fairs and knowledge events to give clients the opportunity to connect with existing and new customers and increase sales in international markets and exchange ideas etc.</li> </ul> <p><b>Evaluation</b></p>	<p>2@6(3+3)</p> <p>(0,3)</p>
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2. (A)	<p><b>Discuss the different ways in which the Irish Government affects the Labour Force in Ireland.</b></p> <p>Possible responses include:</p> <p>The setting of a legal national minimum wage may protect workers on low pay, however, some workers may be worse off as employers may not employ them due to rising costs (employers demand less labour at the higher wage rate so employment will fall). Labour supply should increase as more workers will be willing to offer themselves for employment at the higher wage.</p> <p>The government sets rates for PAYE/PRSI/USC etc. These rates of tax may act as an incentive/disincentive to work. A low corporation tax rate of 12.5% encourages foreign direct investment, thereby increasing businesses in Ireland and increasing the labour force. Low personal taxation in the form of lower PAYE and lower tax on interest earned (DIRT) gives employees and consumers more disposable income, which increases the demand for the goods and services, thereby increasing the labour force.</p> <p>The government investment in 3<sup>rd</sup> level education for all students in Ireland exempt of tuition fees ensures a steady supply of highly skilled labour. Training provided through organisations such as SOLAS, for unemployed people allows for up-skilling and helps the unemployed to re-enter the labour force.</p> <p>Government Agencies such as Enterprise Ireland and LEO's are tasked with the responsibility of helping business set up, grow and develop, which creates employment thereby improving the labour force. LEOs give up to €20,000 feasibility/innovation grants where entrepreneurs match at least 50% of the costs. Business expansion grants of up to €80,000 are available for sole traders, partnerships, community or limited companies. SEED and BES schemes are available for companies exporting or companies having export potential.</p> <p>IDA Ireland, a state body, attracts multinational companies into Ireland through grant aid etc., and creates large employment around the country.</p> <p>The existence of regulation such as Employment law, Health &amp; Safety law, Competition law etc. A better regulatory environment encourages the growth and expansion of business leading to increases in the labour force.</p> <p>Spending on new and improving infrastructural projects such as roads, airports, ports, telecommunications and broadband increases employment during the construction phase and also encourages more business as a result of improved infrastructure, thereby creating additional employment.</p> <p>The Irish government is a major employer – almost 300,000 people work in the public sector, making the Government the largest single employer. Pay cuts and an embargo on recruitment introduced in the public sector in recent years impacted negatively on the labour force.</p>	20 marks
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2	C	<p>Discuss the current role of the Industrial Development Authority (IDA Ireland) and Enterprise Ireland in the development of the Irish economy.</p> <p><b>Industrial Development Authority (IDA Ireland)</b></p> <p>Sample responses include the following:</p> <p><b>Must have the first point below.</b></p> <p>IDA Ireland is responsible for the attraction and development of <b>foreign direct investment in Ireland</b>. Companies such as Google, Intel, Microsoft and Face book etc. have all interacted with the IDA.</p>	20
		<p>IDA Ireland provides information and statistics on key business sectors and locations within Ireland.</p> <p>IDA Ireland assists in setting up a business in Ireland and offers advice on property for international investors.</p> <p>IDA Ireland introduces potential investors to local industry in Ireland, government, service providers and research institutions.</p> <p>IDA Ireland builds links between international businesses and third level education, academic and research centres to ensure the necessary skills and research and development capabilities are in place.</p> <p>IDA Ireland develops clusters of excellence/equitable regional balance etc.</p> <p><b>Enterprise Ireland (EI)</b></p> <p><b>Must have the first point below.</b></p> <p>Enterprise Ireland has the responsibility for developing <b>Indigenous Irish industry with an export focus</b>. It is focused on helping Irish-owned business with 10 or more employees seeking to deliver new export sales. The Irish software sector is one area that Enterprise Ireland supports.</p> <p>Enterprise Ireland provides supports for both companies and researchers in Higher Education Institutes to develop new technologies and processes that will lead to job creation and increased exports.</p> <p>Enterprise Ireland provides funding and supports for companies - from entrepreneurs with business propositions for a high potential start-up through to large companies expanding their activities and growing international sales. Provides equity investment for business.</p> <p>Enterprise Ireland provides international offices that can assist in the growth of exports by providing marketing services/connections and introductions to potential customers overseas.</p> <p>Enterprise Ireland provides a programme of trade missions, trade fairs and knowledge events to give clients the opportunity to connect with existing and new customers and increase sales in international markets and exchange ideas etc.</p>	

2	A	<p>Outline the opportunities <b>and</b> challenges for the Irish economy of the privatisation of state owned enterprises.</p> <p><b>Sample responses include the following:</b></p> <p>At least one of each required for full marks.</p> <p><b><u>Opportunities</u></b></p> <p>Privatisation creates much needed revenue for the Irish economy. Pressure has also being brought to bear by the Troika on the government to sell assets to raise finance and reduce our national debt.</p> <p>The revenue generated can be used to build infrastructure in addition to repaying the national debt, which is beneficial for economic activity. Bord Telecom Éireann plc - listed on the ISE as Eircom plc (now Eircom Group plc), was privatised in 1999.</p> <p>Government financial commitments are reduced when an unprofitable state enterprise is privatised. In addition industrial relations issues are removed from the government's remit by the privatisation.</p> <p>Privatised companies can sell shares which allow them greater access to capital. This allows companies to grow and expand creating wealth and employment for the economy. Access to capital, to finance expansion of Aer Lingus' short haul and long haul fleet, was a prime motivator for the Government's sale of Aer Lingus in 2006.</p> <p>Privatisation leads to greater competition/efficiency which may benefit the consumer in terms of quality and price. Greater competition has played a significant role in the delivery of greater broadband capacity in the Irish market and cheaper air fares for Irish consumers. (privatisation of Eircom and Aer Lingus )</p> <p><b>Sample responses include the following:</b></p> <p><b><u>Challenges</u></b></p> <p>Privatised companies operate and survive because of their profit motive. They do not have a social agenda and will not provide services in loss making areas. E.g. there is an argument that if Bus Éireann was privatised routes in rural and remote areas would be cut affecting the economic sustainability of these areas ('Bus Éireann, 25 years at the heart of your community').</p> <p>Many privatised companies may cut their employee numbers in order to streamline their costs and achieve efficiencies. This has been the case with Aer Lingus and Eircom. Unemployment means higher social welfare payments for the Irish Economy.</p> <p>Loss of state asset: Control of strategic state assets may be lost by the government to private individuals. This has been a factor in the discourse around the future of Bord Gáis, Coillte, and Bord na Móna.</p>	20
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<b>(A)</b>	Discuss the opportunities <b>and</b> challenges of Partnership as a form of business ownership.	4 @ 5 marks 2 opportunities @ 5 marks (2+3) 2 challenges @ 5 marks (2+3)	20
<b>(B)</b>	The role of the Irish Government in encouraging <b>and</b> in regulating business in Ireland.  (At least 1 of each required)	4 @ 5 marks (2+3)	20
<b>(C)</b>	Current trends affecting businesses operating in the <u>services</u> sector of the Irish economy.	4 @5 marks (2+3)	20
	<b>Available Marks</b>		<b>60</b>

**(A) Discuss the opportunities and challenges of *Partnership* as a form of business ownership.**

**Opportunities**

- Partnerships have access to greater amounts of **capital** as up to twenty partners can bring financial resources to the business.
- Partnerships have access to **different skill sets** as new partners may bring new skill sets and expertise to the business e.g. IT or marketing skills.
- Partnership can lead to **more effective decision making** as the decision making process is shared eliciting different points of view and opinions from a range of talented people.
- Ability to achieve **economies of scale**.
- Financial information can remain **confidential**.

**Challenges**

- Partners in the main have **unlimited liability**. This means that they are responsible for the debts of the business if it goes bankrupt and may have to forfeit their personal assets in order to pay business debts
- The partners are **jointly and severally liable** for the debts of the business which means that they have a collective responsibility for each other's debts and their personal assets can be used to clear the debts of their partners.
- Shared decision making could lead to differences of opinion, disagreements, arguments between the partners, and lost opportunities. This could at best lead to **delayed decision making** or at worse lead to the dissolution of the partnership.
- The profits of the business have to be **shared** according to the ratio set out in the deed of partnership.
- Not a separate legal entity therefore **partners and not the business can be sued in law**.
- If one partner dies or resigns the partnership must be **dissolved**.

**(B) Outline the role of the Irish Government in encouraging and in regulating business in Ireland.**

Irish Government role in **encouraging business**:

- Through **decreases in taxation** business activity is encouraged. A reduction in PAYE rates would increase spending power and stimulate demand for goods and services. A reduction in Corporation Tax may improve company profits, and the ability to fund future growth of the business. A reduction in VAT reduces cost of goods and services, stimulates demand and makes the Irish economy more competitive.
- Through **increases in State expenditure** business activity is encouraged. The government could increase capital expenditure on infrastructure, schools, hospitals etc. This will create jobs and consumer demand.

- Through a **network of state agencies** that give business advice, training and guidance, mentoring services and grant aid to facilitate growth and expansion.  
Examples include:  
Fáilte Ireland (developing and promoting tourism)  
Enterprise Ireland (grant aid to indigenous industry, e.g. R&D and marketing)  
FÁS to be replaced by SOLAS (provides industrial training for workers)  
IDA Ireland (provides grant aid to attract FDI)  
County Enterprise Boards to encourage entrepreneurship.
- Through **government planning**. Forward planning reduces uncertainty for business. National wage agreements involving the social partners allow businesses to predict their future wage costs, as well as decreasing significantly the risk of industrial relations problems during the length of the agreement.

#### Government role in **regulating business**:

- The government regulates business in order to protect the **environment**. It established the EPA (Environmental Protection Agency) whose role it is to protect the environment through its licensing, enforcement and monitoring of business activities.
- The government regulates business in order to protect the **consumer**. The Sale of Goods and Supply of Services act 1980 gave rights to the consumer in relation to goods or services bought or hired. The Consumer Protection Act 2007 established the NCA which investigates and prosecutes unfair trading practices.
- The government regulates business in order to protect the **employees** in the workplace with legislation on unfair dismissal, equality and industrial relations. It established the Health and Safety Authority which works to create a national culture where all stakeholders commit to a safe and healthy workplace.
- The government regulates business in order to protect the **general public** against misuse of information in manual or electronic format through the Data Protection Act of 2003. Data protection is the means by which the privacy rights of individuals are safeguarded in relation to the processing of their personal data.

**(C) Discuss current trends affecting businesses operating in the services sector of the Irish economy. Provide examples to support your answer.**

- Taxes such as the household charge, property tax and cuts in government expenditure on social welfare have led to a fall in the disposable income of consumers. As consumers' spending power is reduced the demand for the goods and services that businesses sell in the retail services sector has fallen.
- Closures/examinerships/insolvencies of retailers.
- Recession hitting the small and medium enterprises e.g. suppliers to construction industry.
- Big multiples versus small retail outlets and the difficulty in competing.
- Growth in discount retailers e.g. Aldi, Lidl, TKMaxx.
- Deregulation in some industries e.g. taxi industry.
- The Gathering 2013 and its impact on services (Hotels, travel etc).
- Businesses in the services sector are facing a decrease in footfall because of the challenges facing town centres due to competition from large suburban shopping centres and the restrictive parking regimes in operation. Expensive parking tickets, fines and the threat of clamping are driving people out of town centres where many service sector businesses operate.
- VAT increases lead to more expensive goods and services for the consumer which in turn causes demand to fall, thereby affecting business. For example the volume of sales in department stores fell by 18.4%, and electrical goods fell by 12.0% as a consequence of the negative impact of the VAT rise to 23%.
- Increases in excises duties on tobacco products have led to an increase in tobacco smuggling. Excise duties on cigarettes continue to rise, increasing the incentive for customers to choose cut price illegal products sold on the black market. In 2010, Ireland's retailers lost €896 million in turnover to the Black market.
- The growth of the ICT sector has led to employment opportunities. At a recent Intel Forum on Education, the CEO of Fujitsu Ireland said that 75% of ICT employers in Ireland have job vacancies. There has been growing concern at the rising skills shortage in the ICT sector, a situation made worse by the low number of students opting for technology courses at third level.
- The growth of e-business, a method of buying and selling goods and services over the internet, is changing the dynamic of the services sector. Retailers moving to on-line operations include Tesco and Next.

**(B) Outline how the Irish government's policy of increased taxation and decreased public expenditure is impacting on business.**

While the Government has maintained income tax rates at the standard rate of 20% and the higher rate of 41% and protected its corporation tax rate at 12.5%, none the less it has pursued a policy of increased taxation.

**Increased Taxation**

Value Added Tax (VAT): The 23% VAT rate applies to a wide range of goods and services. Among the items that are subject to the 2% increase are: motor vehicles, petrol, electrical supplies, furniture, adult footwear and clothing, alcoholic and soft drinks, and tobacco. In terms of services, accountancy services, legal services, tax advisory services are all subject to the higher rate of tax.

Household charge: The new €100 charge became payable from Saturday 31<sup>st</sup> March, 2012 for some 1.6 million homeowners.

Motor tax: Motor tax has risen by an average of about 7.5 per cent from the beginning of 2012.

Excise Duties: Tobacco products tax. Excise duty on a packet of 20 cigarettes was increased by 25 cent (including VAT).

Banking: Rate of Dirt has increased from 27 per cent to 30 per cent.

### **Tax increases have a negative impact on business.**

VAT increases lead to more expensive goods and services for the consumer which in turn causes demand to fall, thereby affecting business. For example the volume of sales in department stores fell by 18.4%, electrical goods by 12.0% and bars by 3.5% as a consequence of the negative impact of the VAT rise to 23%.

Taxes such as the household charge lead to a fall in the disposable income of consumers. As consumers spending power is reduced the demand for the goods and services that businesses sell will fall.

Increases in excises duties on tobacco products have led to an increase in tobacco smuggling. Excise duties on cigarettes continue to rise, increasing the incentive for customers to choose cut price illegal products sold on the black market. In 2010, Ireland's retailers lost €896 million in turnover to the Black market.

### **Decreased Public Expenditure**

The following are illustrations of cuts in government expenditure;

Social Welfare Savings of €475m e.g. The Government standardised the rates of payments of child benefit for all children, scrapping premiums for third and subsequent children to save nearly €45m.

Healthcare Savings of €543m e.g. The Government is to reduce staff numbers and contain pay costs, to save €145m.

Education Savings of €132m e.g. The Government raised the pupil-teacher ratio, saving €19.4m

Public Sector Employment e.g. The Government Public service pay bill will fall by €400m in 2012. 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.

Capital Expenditure. The capital budget for 2012 has been cut by €755m to €3.9bn

Among the major projects which have been cancelled are:

- Metro North and Metro West
- The underground Dart
- Thornton Hall Prison
- The new DIT campus at Grangegorman in Dublin
- The Western Rail Corridor

**The Public Expenditure cuts have a negative impact on business.**

Cuts in current expenditure have meant lower wages for workers, lower social welfare payments for the unemployed, higher unemployment (Standardised Unemployment Rate 14.3% in March 2012) etc. affecting spending in the economy. As consumer spending power is reduced the demand for the goods and services that businesses sell will fall.

Under-investment in infrastructure can undermine economic growth and competitiveness. It is argued that Metro North would have created 4,000 direct construction jobs and thousands more indirect jobs in retail and in the construction supply sector. Lack of investment in infrastructure will impact on FDI (Foreign direct investment) and on start-ups.

The Government embargo on recruitment in the Public Service has reduced opportunities for employment.

Decreased public expenditure has resulted in less goods/services being purchased by Government agencies e.g. health services.

Cut-backs in Budget allocations to various state bodies/services have reduced the availability of various services/grants to businesses. (20 marks)

(C) **Privatisation** is the selling off of state owned enterprises to the private sector. The arguments in favour of privatisation of commercial state enterprises (evaluate using examples):

- **Government Revenue:** Selling of a state enterprise provides the government with a large sum of money e.g. Aer Lingus.
- **Reduced Expenditure:** The sale of a loss making enterprise means it will no longer have to be subsidised on a yearly basis by the government/less borrowing required by government/money available for other services.
- **Efficiency:** State owned enterprises are often perceived as being inefficient because they can rely on government funding and have little competition. Private firms are driven by a profit motive and should therefore be more efficiently run.
- **Access to Finance:** Privatised firms are able to take out loans and shares and generally have greater access to sources of finance than state enterprise. This makes it easier to fund expansion.
- **Industrial Relations:** With greater job security employees in state enterprises are more likely to take part in industrial action in pursuit of pay claims, better working conditions etc. than those in the private sector.
- **Competition:** The elimination of a state monopoly can lead to open market competition and can lead to greater choice and lower prices for consumers e.g. Eircom.

**OR**

The arguments against privatisation of commercial state enterprises (evaluate using examples):

- **Loss of state assets:** The state protects industries of strategic interest to the country e.g. transport network, the country's energy supplies for industry and domestic purposes, water supply, communications systems, the economic infrastructure of the country etc
- **Increased Unemployment:** There may be a loss of jobs through rationalisation of services, leading to higher social welfare spending.
- **Social Commitments:** Non-profit making essential services may be discontinued by the private business in an effort to reduce costs e.g. the postal and telecommunications service, electricity, gas and water services to remote areas, etc.
- **Loss of Control /Costs to state:** The shares of privatised firms may end up with foreign investors/There may be high costs involved in preparing a company for privatisation.
- **Profit Motive/increased prices:** Privatised companies must maximise returns to the shareholders and this could result in increased prices for consumers.



**Question 2 (A) Government contribution to creating suitable climate for business enterprises.**

The role of the Irish Government in creating a suitable climate for business includes:

Business organisations are controlled by legislation (e.g. The Sale of Goods and Supply of Services Act) promoted by way of advisory services (Forfas and Eolas)

An important role for government is to set out regulations to be observed by everyone in society and within which the social partners will operate.

Certain basic needs of people would not be met. health and education services, security services, etc. would only be supplied if they were economically viable.

The government, through its regulations, protects employees and consumers and tries to ensure that there is no waste of resources.

Government uses taxation to transfer wealth in the community by levying taxes on those able to pay and redistributing the money to other parts of the economy such as training, supports for start-up businesses and social welfare.

Government policies restrict the excesses of business behaviour (e.g. competition laws), control government spending (e.g. the national budget), maintain employment and encourages enterprising activities (e.g. grants) which all can help to stabilise the economy.

Changes can be made to the business climate when necessary eg. an increase in interest rates often reduces spending in the economy which affects sales. If businesses have borrowings, it increases their expenses, and their ability to finance new projects.

Fiscal policies are those concerned with financial receipts and expenditure. If personal taxes are increased the working population buys less, saves less and business activity decreases. If personal taxes are reduced, workers may work harder.

An increase in the corporation tax rate affects the growth of companies and reduces the enterprise's ability to reinvest in the business, effect on job creation.

Increases in VAT reduce sales. Reducing excise duty encouraged the consumption of lead free petrol to control harmful pollution. Reduction of specific taxes can help businesses that are struggling or meeting specific competition eg. tax on betting.

Wages to government employees has a big effect on local economies. Current expenditure by government departments on goods and services for schools, hospitals, offices, security, etc. e.g. payments for catering, electricity, transport, cleaning, telecommunications, post and insurance.

Government capital expenditure on fixed assets, e.g. contracts for buildings, schools, hospitals, roads, etc. affect the construction, engineering, tourism and transport sectors.

Monetary policies are those that affect the amount of money in circulation if the government wants to affect spending in the economy and thus in business eg. an increase in interest rates restricts the amount of money the banks lend and reduces the supply of money. People borrow less and demand is reduced.

If government lowers interest rates then business can borrow more easily and economic activity will increase. Individuals and businesses spend more.

Exports and imports can be controlled by tariffs and restrictions etc. on imports or subsidies and grants to exporters. The EU and the WTO (World Trade Organisation) agreements guarantee free markets for goods and services.

Government planning influences the economic environment for business in Ireland. e.g. PPF, the parties include all the social partners who have a stake in the country. Government plans affects business, the workforce, the community and society.

