
3.9

Using skills for Business

Economic Indicators

Learning Outcome Notes

LO 3.9 - Explain the relevance of economic indicators such as inflation, employment rates, interest rates, economic growth, national income and national debt for individuals and the economy.

CHAPTER QUESTIONS

By the end of this learning outcome, you should be able to do the following -

1. Identify and outline each of the economy indicators
2. Explain the effect of each of the indicators on the household, business and the economy
3. Calculate inflation
4. Calculate economic growth

ECONOMIC INDICATION

Economic indicators

Def These provide a direction in which the economy is going. They are pieces of economic information that highlight the conditions of the economy.

There are 6 different indicators that you will need to know. They include the following -

1. Inflation

Inflation

Def This is the increase in the prices of goods and service over a period of time. This period of time is usually a year. It is measured by the Consumer Price Index

Consumer Price Index

Def This is how inflation is measure. It is an index (list) of all the product price in one year compare to the previous year prices.

Calculate the inflation.

$$\frac{\text{Difference in cost of living between year 2 and 1}}{\text{Cost of living in year 1}} \times \frac{100}{1}$$

Cause of inflation

The following are some of the causes of inflation -

1. The cost of producing the goods increase - for example the increase in wages paid to employees - this means the business will pass the increase onto consumers and increase the price of the product.
2. The cost of the goods imported has increased - Import Inflation
3. Indirect costs have increased - For example VAT.

4. The demand for the product has increased.

The Impact of High inflation

Household	Business	Economy
1. Consumer will not be to buy as many goods or service due to the increase	1. Worker will look for a wage increase as the cost of living has increased	1. Irish goods and service will become more expensive
2. People will not save if the interest rate is less than inflation	2. Business expansion will decrease as it is more expensive	2. This will result in more imports coming in from abroad

2. Employment Levels

Labour Force ^{Def} This is all the people aged between 16-65 who are willing and able to work.

Employed ^{Def} These are the people in the labour force who can find a job.

Unemployed ^{Def} These are the people in the labour force who can't find a job.

Full employment in Ireland is around 4% (2020)

The Impact of High unemployment

Household	Business	Economy
1. Less demand for goods and services	1. Harder to get investment as the demand for the product has decreased	1. Reduced economic activity due to less demand
2. Household will have a lower standard of living	2. There will be a decrease in profit and demand and sales have decreased	2. Less attractive to FDI as people are emigrating

3. Interest Rates

Interest Rates

^{Def} This is the cost of borrowing and the reward for saving. Low interest rate will encourage people and business to borrow and the repayment of interest will be low. People will not save as the return is too low.

Interest rates are controlled by the European Central Bank

The Impact of low interest rates

Household	Business	Economy
1. There will be more borrowing and spending due to cheaper finance	1. Expansion and new product development will be easier due to cheaper finance	1. Increase in VAT to the government due to increase in spending
2. Increased in borrowing will increase the household debt	2. Repayment of existing loans will fall	2. The cost of servicing the national debt will decrease

4. National Debt

National Debt

^{Def} This the amount of money that the government has borrowed and has to pay back.

Debt Servicing

^{Def} This is the interest the Government pays on the loans that they have.

NTMA

^{Def} National Treasury Management Agency are the state body that looks after the countries debt.

Ireland debt at present is €236 Billion (2023)

The Impact of National Debts

Household	Business	Economy
1. Taxes may increase to service the debt	1. Consumer will have less disposable income so demand will decrease	1. Public service are likely to be cut because we can keep borrowing to pay for them

2. Government spending may reduce leading to less public services	2. Reduce demand may lead to job loses	2. Debt is an opportunity cost - the money could be sent elsewhere
---	--	--

5. National Income

National Income	^{Def} This is the value of all new goods and service produced in a year in a country
GDP	^{Def} Gross Domestic product. It is the total value of all finished goods and services produced within a country in a specific time (from year to year)
GNP	^{Def} Gross National Product. Is the total value of all finished goods and services produced by a country's residents and businesses no matter where the location of production is. It includes home and foreign produce.

6. Economic Growth

Economic growth	^{Def} This occurs when there is an increase in the amount of goods and service produced in an economy from one year to the next
------------------------	--

Calculation of economy growth

Difference year 1 and year 2

Production in year 1

ECONOMIC CYCLE

Economic Growth	^{Def} This occurs when there is an increase in the amount of goods and service produced in an economy from one year to the next
Economic Boom	^{Def} This is continuous period of economic growth.
Recession	^{Def} This is usually a slowdown in economic growth. It is usually when there is a decrease in the economic growth in a country in 6 months in a row.
Economic Depression	^{Def} This is when a recession is very serious and continue for a period of time.

The effects of Economic Growth

Household	Business	Economy
1. There will be an increase in employment	1. As more money is spent, demand will increase, which leads to more employment	1. This can lead to increase inflation as resource become scarce so price increase
2. This will lead to an increase in standard of living	2. With this increase in employment and sales the government will receive more income	

Using Skills for Business

Economic Indicators

Past Exam Questions and Answers

NOTE - Very Important

It is very important when answering exams questions use the following steps -

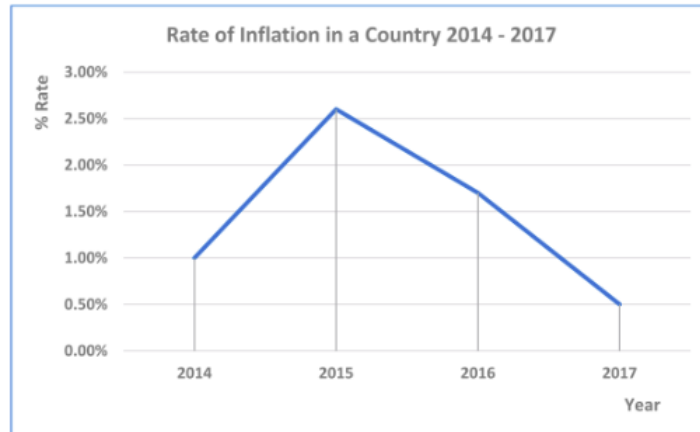
1. That you know the information for the learning outcome
2. That you understand the information from the learning outcome
3. That you can apply the information from the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the question

QUESTIONS

2019 - Sample Paper - Question 2

The rate of inflation in a country over four years is shown in the graph below -



Using the information above answer the following questions.

- (a) Which year has the highest rate of inflation

--

- (b) State one way in which a large increase in the rate of inflation may affect consumers in an economy

2019 - Sample Paper - Question 10

The Irish economy is growing three times faster than any other European country

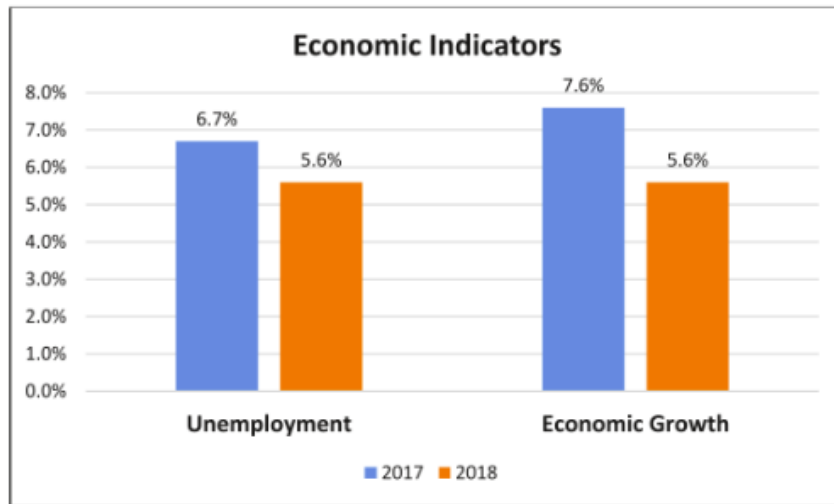
Adapted from The Irish Times, February 2018

State two ways in which economic growth can have a positive impact on a small town in rural Ireland.

1
2

2019 - Paper - Question 18

(C) Given that Mary's husband John is unemployed, she is interested in finding out how the economy is doing. On the graph below, the economic indicators for unemployment and economic growth are shown for Ireland for 2017 and 2018



(i) Indicate in each case whether the change in the indicators is a good or bad trend for the Irish economy. Tick the correct box

Economic Indicator	Good Trend	Bad Trend
Unemployment		
Economic Growth		

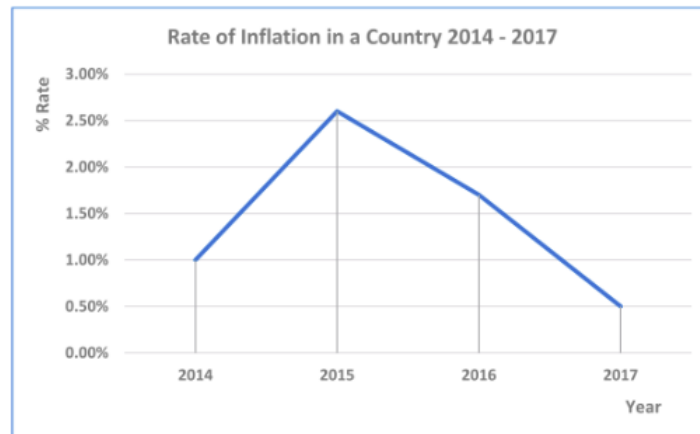
(ii) Explain the impact of the above trend in unemployment on individuals like John and on the economy.

Impact on Individuals
Impact on the Economy

SUGGESTED SOLUTIONS

2019 - Sample Paper - Question 2

The rate of inflation in a country over four years is shown in the graph below -



Using the information above answer the following questions.

- (a) Which year has the highest rate of inflation

2015

- (b) State one way in which a large increase in the rate of inflation may affect consumers in an economy

Less purchasing of products - Inflation is the increase in the price of goods and service from one year to the next. If inflation increases so too does the price for a good or service. It goods and service get too expensive and customer are not getting value for their money they will try and find an alternative or cheaper product such as imports

2019 - Sample Paper - Question 10

The Irish economy is growing three times faster than any other European country

Adapted from The Irish Times, February 2018

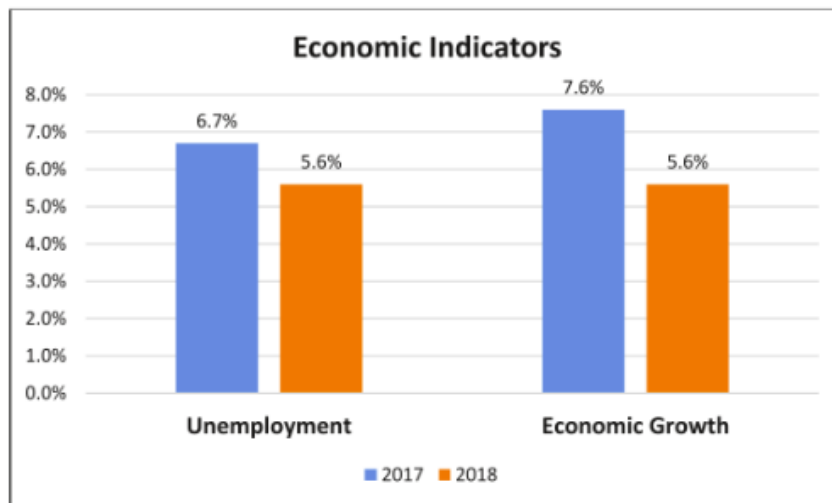
State two ways in which economic growth can have a positive impact on a small town in rural Ireland.

- 1. Increased employment** - Economic growth is the increase in the production of goods and services. To make these goods and services people will have to be employed to make the goods and provide these services
- 2. Improved standard of living** - As there is an increase in employment more people will be working and have more disposable income. This money can be spent on goods and services

That the consumer wants more than need need.

2019 - Paper - Question 18

(C) Given that Mary's husband John is unemployed, she is interested in finding out how the economy is doing. On the graph below, the economic indicators for unemployment and economic growth are shown for Ireland for 2017 and 2018



(i) Indicate in each case whether the change in the indicators is a good or bad trend for the Irish economy. Tick the correct box

Economic Indicator	Good Trend	Bad Trend
Unemployment	✓	
Economic Growth		✓

(ii) Explain the impact of the above trend in unemployment on individuals like John and on the economy.

Impact on Individuals
Regular Income - As john has a job, he will receive a regular income each week or month
In the form of a salary or wage. The means John will be able to pay his bill - Light and
Heat and have a higher standard of living
Impact on the Economy
Increase in tax revenue - There will be an increase in the collection of tax revenue for
The Government. As John is working, he will have to pay PAYE, PRSI and USC to the
Government