Free Market Economy

Ireland is a free market economy. This is where businesses are set up with the intention of making a profit. If they don't, they shut down.

Government Intervention in the Economy

Laws

The central government intervene in businesses by passing laws to be followed nationally. The local government pass bye-laws to be followed locally.

Enforcement

State agencies enforce laws.

Services

The Government provide necessary services to the country such as educational services, the Gardaí, waste management facilities and transport.

Infrastructure

The Government build national roads.

Re-Distribution

They re-distribute wealth into the country by taxation.

Effect of Government on Business

- They set the budget.
- They are the biggest employer in the country.
- They provide good infrastructure for businesses.
- They set taxes to be paid by businesses.

- They set National Agreements with their social partners to ensure certainty in wages and social welfare payments.
- Public-Private Partnerships.

Economic Variables

Unemployment

A rise in unemployment causes a fall in spending and in turn a loss of profits for businesses. There is also less tax revenue and more social welfare payments. The tax rates are raised to try to tackle this.

Interest Rates

They are controlled by the European Central Bank. A rise in interest rates causes business costs to rise and a downfall in the demand of goods.

Exchange Rate

When the value of the euro increases, exports to non-EU countries become more expensive. The Balance of Payments declines and there are less tourists coming into the country. Imports from non-EU countries become cheaper.

Inflation

This is measured by the Consumer Price Index. High inflation means a decline in sales for businesses, employees seeking pay rise and reduction in profits.

Taxation

An increase in taxes causes an increase in costs for businesses, a lack of motivation to work and a rise in inflation.

Impact of Businesses on the Economy

- Less social welfare payments.
- More tax revenue.
- Higher standard of living.
- More pollution.
- Traffic delays.

Public Limited Company (PLC)

Characteristics

- At least 7 people.
- Has articles of association and memorandum of association.
- Submit financial statements to the Register of Companies.

Advantages

- Limited liability.
- Can sell shares on stock market.
- Continuity of existence.

Disadvantages

- Lots of expenses.
- Lots of legal requirements.
- Lots of shareholders = diluted control.
- Target for takeovers.

Partnership

Characteristics

- Two or more people.
- No more than 20 people.
- Common between solicitors and doctors.

Advantages

- Shared decision making.
- Shared responsibility.
- Don't need to publish financial details.
- Easy to form.

Disadvantages

- Unlimited liability.
- Profits shared.
- No continuity if one partner dies.
- Disagreements can arise easily.

Franchising

Characteristics

A company that sells their business model to another company. They give them this in return for royalties.

Advantages

- Business is already known.
- Assistance from franchiser.
- Can buy in bulk.

Disadvantages

- Expensive.
- No space for innovation or creativity.
- Franchisee can't sell the business without the franchisor's permission.

Co-Operative

Characteristics

- Each member has one vote.
- Mainly exist in industries.
- Must register with the Registrar of Friendly Societies.

Advantages

- Limited liability.
- Equal say.
- Everyone is committed.
- Good credit status.

Disadvantages

- Limited finance.
- Must pay the Registrar of Friendly Societies yearly.
- Expensive to form.

State Owned Enterprise

Characteristics

- Set up and controlled by the government.
- Government provides the money.

Advantages

- Provide employment.
- Provide necessary services.
- Loans guaranteed.

Disadvantages

- Lots of money invested from government.
- Lack of knowledge.
- Lack of profit making.

Strategic Alliance

Characteristics

Two or more firms coming together for a common goal. They remain separate legal entities but shar their resources and expertise.

Advantages

- Easy to form.
- Shared costs.
- Shared expertise.
- Provides access to other markets.

Disadvantages

- Disagreements are likely.
- Split control.