

Unit 7: Questions and Answers, 1999–2006

INTRODUCTION

The majority of students are capable of learning off huge chunks of information from text books, yet only about 10% achieve the elusive 'A' grade in the exam. This article continues on with our feature on exam questions and answers. Unit 7 has been on every Higher Level paper since 1999. Often, the most basic of knowledge is left out and even simple tasks such as dividing the answer into headings and explanations. Students must always use knowledge that is *relevant* to the question. These suggested solutions should form a core part of long-term revision. It is also important to plan each answer.

To avoid repetition, we have left out questions that have appeared on several papers.

QUESTION 1 – 1999

Because Ireland is an open economy, the international trading environment has a huge influence on Irish Business.

- (a) Evaluate the opportunities and challenges for Irish Business as a result of engaging in international trade. (30 marks)
- (b) Explain the importance for Ireland of:
- any **one** of the policies of the European Union.
 - any **one** of the institutions of the European Union. (30 marks)

Answer

Part (a)

Opportunities

Markets

Free trade has given us access to huge international markets and this allows a

growth level, which would not have been possible in the small Irish market.

Workforce

We have a well-educated young workforce with up to date skills, which gives us a competitive advantage in hi-tech areas and a well developed knowledge economy

EU membership

We are members of a powerful trading bloc and are protected by its common policies. We can trade freely within a market of 500 million people.

Challenges to Irish business in International trade

Competition

Traditionally, the Irish government would have protected 'infant' industry from the full force of competition through trade barriers. Deregulation of EU markets means that only competitive firms will survive and this may affect employment here.

Development of Human Resources

Training and development programmes will have to be introduced as a part of preparing for the highly competitive markets (in which strikes would have serious implications); we also have language problems, marketing changes and the introduction of technology to deal with.

Dumping

Excess production from larger countries could be sold here below cost as a means of using up surplus supply. This would damage domestic firms.

Costs

Our geographical location at the edge of Europe means that we have extra transport

and great distribution costs. We should hope that a focus on quality and improvements in technology and logistics would help us overcome this challenge.

Part (b)

(i) The **EU Commission** has a number of important functions:

- The Commission initiates legislation. It makes proposals for European laws, which are sent to the Council and European Parliament for amendment and approval.
- The Commission acts as a guardian of the EU treaties. It ensures that EU legislation is applied by all Member States. It can institute proceedings against Member States or businesses that fail to comply with EU law.
- The Commission acts as an executive body – it manages policies and the annual budget.
- The Commission represents the EU on the international stage. It negotiates trade and co-operation agreements with non-EU countries.

(ii) **Common Agricultural Policy**

- The aim of the common agricultural policy is to provide farmers with a **reasonable standard of living and consumers with quality food at fair prices**. The way these aims are met has changed over the years. Food safety, preservation of the rural environment and value for money are now all key concepts.
- Born 50 years ago, when the founder members of the EU had not long emerged from a decade or more of food shortages, the Common Agricultural Policy (CAP) began by subsidising the production of basic foodstuffs in the interests of self-sufficiency. The CAP of today, on the other hand, emphasises **direct payments to farmers** as the best way of guaranteeing farm incomes, food safety and quality, and environmentally sustainable production.
- This approach makes it easier to recognise the role that farmers can play in improving quality, preserving diversity and traditional landscapes, and in keeping rural economies alive. It strikes a balance that spends the

money where it is most needed, gives consumers safe food at a fair price and value for money for the EU taxpayer.

QUESTION 2 – 2000

Ireland is an open economy. The Irish economy is greatly affected by influences from abroad. The international environment offers Irish Business many opportunities and challenges, e.g. the marketing of Irish products abroad and the threat from foreign competitors.

- (a) Explain, using examples, the importance of global marketing for a global business. *pg 470*
(20 marks)
- (b) Outline the purpose of the European Union's Competition Policy. (10 marks)
- (c) Discuss the changing nature of the International Economy. Include in your response the effects it has on Irish business. *pg 435*
(30 marks)

Answer

Part (a)

- Global marketing is the identifying, anticipating and satisfying of the needs and wants of the global consumer. It uses the Global marketing mix of Global product, Global price, Global place and Global promotion, e.g. Coca Cola, Intel, Nokia, McDonalds, Marlboro.
- Global marketing coordinates its efforts towards aiming the product at 'one world market' and adjusting for the most important factor, i.e. price, which is related to the average earnings per head in that country.
- Global marketing organises the factors of the production on a worldwide basis and seeks out the most cost effective methods in the most cost effective locations. This results in a cheaper price for the global consumer, e.g. IBM.
- Global marketing allows those companies who have 'run out of road at home' to expand world wide, taking advantage of improvements in transport, Information Technology and the deregulation of markets pushed by the World Trade Organisation. These companies also benefit from economies of scale due to larger scale of operations, e.g. Nike.

Part (b)

The purpose of the policy is:

Promotion of competition

Effective competition is crucial to an open market economy. It cuts prices, raises quality and expands customer choice. Competition allows technological innovation to flourish.

Fair conditions

For this to happen, fair play on the part of businesses and governments is essential. The European Commission has wide powers to make sure they stick to European Union rules on fair trade in goods and services.

Part (c) pg 435

The main changes that affect Irish businesses are:

1. World Trade Organisation

This was set up post World War II as the General Agreement on Tariffs and Trade and has been hugely successful at opening up markets to free trade. This is very important for an export-orientated country like Ireland.

2. The European Union

We are part of an economic bloc, which has grown in strength since economic and monetary union. This offers benefits and opportunities for Ireland.

3. Transnationals

We live in a world of global business and a single brand worldwide. The attraction of these companies to Ireland has been high on IDA Ireland's priority list.

4. Technology

This has rendered location less important and developments should reduce transport costs. The use of 'logistics' is becoming more common.

5. Emerging countries

The development of the Pacific Rim and South American countries, e.g. China and Brazil who are producing high quality low cost goods will prove a threat to EU countries. Ireland must concentrate on hi-tech industries.

QUESTION 3 - 2001

(a) Analyse the significance or otherwise of international trade for Ireland. Refer to the development of trading blocks and transnational companies in your answer. (35 marks)

pg 432
pg 436

(b) Explain the decision-making process of the European Union. Include the relevant institutions in your answer. (25 marks)

Answer

Part (a)

- As a small open economy, we rely heavily on foreign trade. We depend on imports of raw materials to generate finished goods for export.
- We depend heavily on exports to bring in the wealth to boost our economy.

Main Geographic Areas - 2006		
	Imports	Exports
	€m	€m
Great Britain and Northern Ireland	19,680.0	14,870.2
Other EU Countries	16,822.6	41,470.4
USA	7,390.0	16,923.8
Rest of World	17,632.4	15,911.1

Source: CSO

- We have a competitive advantage in several sectors and to remain efficient we must expand as our domestic market is too small. In the year 2006, the components of our exports were:

Chemicals	42%
Computer Equipment	20%
Machines and various equipment	15%
Food, live animals	6%
Misc. manufacturing	8%
Others	9%

- Ireland has a well-developed services sector in areas such as tourism, financial services, engineering technology, etc. Improvements in Information and Communications Technology mean that these services can be traded much more easily. Our exports of services account for 2.5% of total world exports.
- Ireland is part of the European Union and we have free movement of goods services capital and labour. We have benefited from financial aid that has helped to develop our infrastructure and has given us a platform for economic success.
- The IDA Ireland has attracted hundreds of transnational companies to Ireland focusing on business sectors that are

International trade means Ireland can

① Sell to bulk of customers

② have economies of scale → product becomes cheaper to make.

③ Foreign currency - we receive foreign currency & we can use this when we buy foreign goods.

④ ↑ sales → job creation

⑤ Competition - forces Irish business to keep costs + prices low.

Trading Bloc

Transnational Companies

closely matched with the emerging needs of the Irish economy and that can operate competitively in global markets from an Irish base. This has created employment and has boosted exports.

Part (b)

(i) The EU decision making process

The **EU Commission** proposes a new law. This body oversees the running of the European Union on a daily basis. It consists of EU Commissioners appointed by the member states.

The new law is then discussed by the **European Parliament**, which is sometimes referred to as a 'talking shop'. This institution debates the pros and cons of the proposed new legislation and takes on board the views of special interest groups, e.g. Greenpeace.

The proposed new law is then passed back to the **EU Commission** and then take on board any useful amendments as decided by the **EU Parliament**. The EU Commission then redrafts the proposed bill.

The proposed legislation is passed on to the main decision making body of the EU, which is the **EU Council of Ministers**. This collective institution consists of the various ministers from each member state who are most affected by the new legislation, e.g. the EU Council of Ministers for Finance ultimately ratified the euro. The new legislation is accepted or rejected by the European Council of Ministers.

This new legislation, if accepted, may be implemented as follows:

1. *By regulation:* These have immediate effect, e.g. a regulation that prevents airlines from leaving passengers stranded through overbooking.
2. *By directive:* The EU specifies what has to be done but leaves its implementation up to the individual member states, e.g. EU Waste Management directive.
3. *By decision:* This only applies to individual members or companies, e.g. the members of a vitamin cartel were fined €855m for price fixing.

QUESTION 4 – 2002

This question in 2002 was a repeat of a question asked in a previous year.

*Significance of International Trade for the Irish Economy
pg. 432.*

QUESTION 5 – 2003

- (a) Repeated question. *Evaluate the significance of the SEM for Irish business*
 (b) Outline the effects of any of the EU common policies on Irish economic activity. *Policies (20 marks)*

Answer

Part (b)

The purpose of the **Competition** policy is to ensure uniform practices in businesses throughout the European Union and to outlaw agreements, which prevent, restrict or distort trade and eliminate fair competition.

It prevents cartels and unfair trading practices

It is illegal for businesses, including the professions, to collude to fix prices or carve up markets between them. If a single company has a dominant position in a particular market, it may not abuse its market power to drive out competitors. Nor may a large company exploit the weaker negotiating position of its smaller customers and suppliers.

Merger control

The Commission can ban mergers between two large companies or takeovers of one firm by another if the enlarged company would dominate the market and, therefore, too easily be able to **squeeze out its competitors** or if a merger would leave so few players in the market that innovation would be stifled, or price competition or consumer choice significantly reduced.

State aids

The Commission monitors closely how much aid member state governments make available to business. It looks not just at obvious forms of aid, such as loans and grants, but also at tax breaks, goods and services made available at preferential rates and at loan guarantees that make the borrower a better credit risk.

The Commission does not allow governments to provide aid to businesses which **have no chance of ever standing on their own feet**, but it will agree to temporary assistance if there is a real chance that a business in difficulty can eventually become profitable

Liberalisation

In an open economy, monopolies are rarely justified. They tend to result in high prices and poor service, and to stifle innovation.

Exceptions and subsidies are allowed for **inherently uneconomic services**, which can be considered a basic right, such as postal deliveries in rural areas.

QUESTION 6 – 2004

- (a) Repeated question. *Define Global Marketing.*
 (b) Explain, using examples, the impact of transnational companies in Ireland. (20 marks)
 (c) Discuss two business opportunities for Irish business in 'developing' markets, e.g. in the European Union. (20 marks)

■ **Answer** *Pg. 437*

Part (b) *Pg 466*
The impact of Transnational Companies

They create jobs.

At the end of 2006, there were 135,000 people employed by foreign transnationals in Ireland. The average salary was €40,000.

They boost exports.

In 2006, transnationals accounted for €77bn worth of exports and paid €3bn in corporation tax.

They have a positive impact on the Irish economy.

In 2006, transnational companies spent €15bn in the Irish economy. The spend on R&D was €470 million.

Greater choice in the economy.

They improve the options for consumers in the areas of goods and services.

They provide good education and training. They raise domestic quality standards.

Part (c)

Irish firms can take advantage of an enlarged European Union as follows:

- *It opens up new markets.*
Irish firms can benefit from large-scale production, as the new members are potential export markets. It can increase its output and benefit from economies of scale.
- *It will ease labour shortages in Ireland.*
Firms in manufacturing and construction should benefit from a greater pool of employees, as enlargement should increase the supply of labour in their area. This helps to drive Irish business.

QUESTION 7 – 2005

This question in 2005 was a repeat of a question asked in a previous year. *Explain opportunities & challenges....*

QUESTION 8 – 2006

- (a) (i) Outline the decision-making process of the European Union. *Pg. 452. Decision making in the EU.*
 (ii) Explain the term 'EU directive' and the effect of **one** of them on Irish business. (25 marks)
 (b) Evaluate the impact on Ireland of any **two** of the following:
 (i) The Common Agricultural Policy. *Pg 454.*
 (ii) The Competition Policy. *456.*
 (iii) The European Union Social Charter. *Pg 450.* (20 marks)
 (c) Analyse how changes in the international economy are impacting on Irish business. *Pg 455.* Use relevant examples to illustrate your answer. (15 marks)

■ **Answer**

Part (a)

- (i) Repeat.
 (ii) An **EU directive** is part of the decision-making process of the European Union. It suggests that a law should be changed, but leaves it to the member state to implement it, e.g. the Irish government introduced the plastic bag tax in response to the EU waste management directive, which suggested a move away from landfills and towards re-cycling.

Note: Only attempt a specific law section if you are crystal clear on the facts and in this case if you have prepared one Directive.

Part (b)

- The impact of the **competition policy** has been to ensure uniform practices in businesses throughout the European Union and to outlaw agreements that prevent, restrict or distort trade and eliminate fair competition.

It prevents cartels and unfair trading practices, e.g. in the cement industry and home heating industry, whereby consumers were being cheated by unscrupulous producers who fixed prices and carved up markets between them.

- The **Social Charter** has had a major impact.

Minimum wage

As part of the push for better working

conditions, even low-skilled workers are entitled to €8.65 per hour. This has raised the standard of living of the low paid.

Equality

The strict anti-discrimination legislation towards equal opportunities for all has its origin in the social charter. It has improved the lives of minority groups.

Part (c)

The main changes that affect Irish businesses are:

1. World Trade Organisation

This was set up post World War II as the General Agreement on Tariffs and Trade (GATT) and has been hugely successful at opening up markets to free trade. This is very important for an export-orientated country

like Ireland. Our main exports of chemicals and pharmaceuticals can be sold abroad competitively and without hindrance.

2. The European Union

We are part of an economic bloc, which has grown in strength since economic and monetary union. This offers benefits and opportunities for Ireland. Tourism has been boosted by airline deregulation and by a single currency.

3. Transnationals

We live in a world of global business and single brands worldwide. The attraction of these companies to Ireland has been high on IDA Ireland's priority list. These companies, regardless of their motives for being here, are responsible for 135,000 direct jobs.

Note: The question asked for examples.

2007
Pg 432

- (a) opportunities provided by international trade (25)
- (b) Explain global marketing + its role in international business (25)
- (c) Outline role of 'Interest Groups' in EU (10)

Pg 453

2008

- (a) Impact of SEM (Pg 447)
- (b) Functions of EU Parliament (Pg 444) Council of Ministers (Pg 450) EU Commission (Pg 448)
- (c) Directive + Regulation (Distinguish) Pg 453

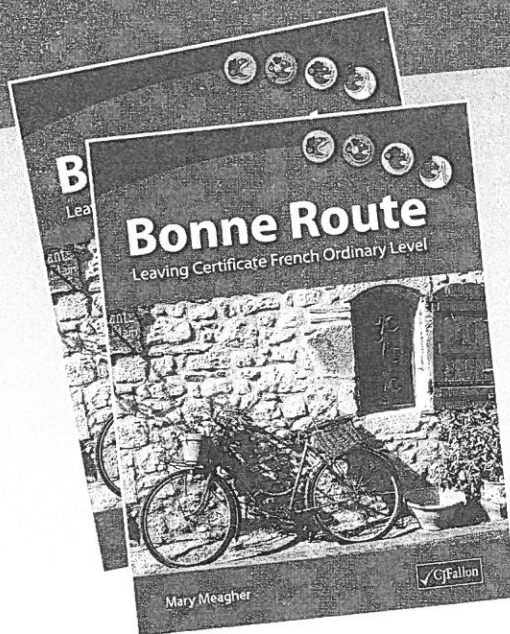
2009

- a) Opp + Challenges in EU Market
- b) Global marketing
- c) Global mkt challenges

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