Knowledge organiser

LC Economics

1.1 Economics as a way of thinking

Key economic events

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Key economic events

A timeline of significant economic events **that have** shaped the world over the last century.

A **recession** is a **decline in economic activity**, over a period of months, spread across the economy that can affect production and employment, and produce lower household income and spending. It can be defined as two consecutive quarters of decline in GDP.
A **depression** is a **more extreme** economic downturn which leads to widespread unemployment and major pauses in economic activity and can last for many years. It is characterised by negative economic growth, falling output and falling GDP.

The Great Depression

The Great Depression lasted from 1929 to 1939. It was worldwide economic downturn that began in 1929 after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. Over the next several years, consumer spending and investment dropped, causing steep declines in industrial output and employment. Although it originated in the United States, the Great Depression caused drastic declines in output, severe unemployment, and acute deflation in almost every country of the world.

Ireland joins the EEC in 1973

Ireland joined the European Economic Community in 1973 and became a member of the EEC, also known as the Common Market, which was a group designed to integrate the economies of Europe. In 2009 it became known as the European Union or EU, a broader group including economic and political cooperation.

Celtic Tiger 1994-2007

The **'Celtic Tiger'** was the name given to Ireland during the boom years when the economy was growing rapidly. After being one of Europe's poorest countries Ireland experienced rapid economic growth, fuelled by Foreign Direct Investment (FDI), low corporation taxes and an educated English speaking population.

Economic recovery 2007-2019

Economic recovery has been in the form of a slow and steady growth and recovery from recession helped by FDI, growth in the pharmaceutical sector, increased bank lending and the growth in the construction industry.

Covid 19 pandemic

The Covid 19 pandemic caused a severe impact on the domestic economy and a contraction in economic activity. It caused widespread job losses, with unemployment reaching 20%. €14 billion was spent on ***Pandemic Unemployment Payment*** (PUP), the wage subsidy scheme and the covid restrictions support scheme.

Covid 19 recovery

Covid 19 recovery, under assumptions of a successful vaccine rollout, forecasts a recovery of 4.5% in GDP growth. This will be fuelled by the release of "pent up" demand and the build-up of €11 billion in excess savings.

Great Depression	Economic crisis	Joins EEC	Celtic Tiger	Great recession	Economic recovery	Brexit	Covid -19 Pandemic	Ukraine War
1929-39	1950's	1973	1994-07	2007	2007-19	2020	2020	2022

1950's economic crisis

The Irish economic crisis of the 1950's was caused by the largely agricultural economy being in decline, industry was stagnant and 16% of the population emigrated. Austerity and the loss of dynamic young people helped ensure Ireland's economy stagnated for decades. Protectionism was a key element of Irish economic policy in the 1950's. Heavy import duties were effective in reducing the balance of payments deficit, developing native industries and moving away from an overdependence on the UK. However, tariffs made goods more expensive, reducing profit for businesses who relied on imported materials and increasing prices for consumers. In the 1990s, a stagnant agricultural economy was transformed into a highly skilled post-industrial economy. Lower taxes attracted foreign firms, particularly from the US to come to Ireland.

Great recession of 2007

The great recession of 2007 was when the Irish economy collapsed and experienced a severe recession. This caused 'The Celtic Tiger' boom to turn to bust. It stemmed from the collapse of the domestic property sector which caused a contraction in national output. The cause was inadequate risk management practices of the Irish banks and the failure of the financial regulator to supervise these practices effectively. The Irish economy severe recession then entered into an economic depression by 2009.

Brexit 2020

Brexit was when the UK left the EU on January 1st, 2020. This has caused problems for Irish exports and imports to the UK, supply shortages and labour market implications due to falling demand.

Ukraine war

The Russian invasion of the Ukraine has had a **significant impact** on the Irish and global economy. Russia is a major oil and gas distributor and the conflict has caused disruption and uncertainty. **Energy prices have risen** as well as the cost of other exports from that region, such as, wheat, fertiliser and aluminium. Inflation is rising and the increase in the cost of living is affecting the population. An increase in inflation will see demand for increase in pay, to meet the higher cost of living. The Government cut excise duty on fuel in March 2022 to ease the burden of rapidly increasing fuel prices.

Exam questions

2021 Q12c

(c) The United Kingdom exited the European Union on January 31, 2020.

(i) Discuss two implications of this exit for the Irish economy.

(ii) Outline two possible **advantages** to Ireland of remaining a member of the EU.

Sample paper 2020

Sample Q11. Discuss the role **high tariffs** played on imports in the Irish Economic Crisis of the 1950s.

Answer 2021 Q12c (i)

Suggested responses

Possible negative effect on Irish exports Approximately 15 per cent of Irish goods and services exports are destined to the UK. In certain sectors, the UK is an especially important market, such as the agri-food sector where around 40 per cent of exports are destined for the UK. Supplier industries to the export sectors will also be affected. In addition, two-thirds of Irish exporters make use of the UK land bridge to access continental markets and this could pose problems for Irish exporters who wish to avoid UK ferry ports. **Effects on agricultural sector / agri-food sectors** Brexit will reduce the preferential access of EU producers to the UK market and thereby reduce the cost advantages that Irish agricultural products have in the UK market relative to similar products, e.g. dairy products from New Zealand or beef from Australia. Impacts in the agri-food sector are driven by a combination of tariffs, customs costs and the risk of regulatory divergence. The Irish Fishing industry may also fare badly from Brexit due to restrictions. **Labour market effects** The effects on the labour market will be determined by the demand for Irish exports in the UK market. Some export sectors are likely to face reduced demand from the UK and thus experience falls in employment levels. However, if foreign companies re-locate from the UK to Ireland for access to the EU market this could give rise to employment in some sectors. **Imports from the UK** The cost of imports from the UK may increase due to tariffs, customs costs etc. Cost of raw materials may also rise leading to a rise in prices for domestically produced goods. There may also be a disruption to supply chains as Irish firms seek alternatives to UK suppliers leading to rising prices or potential shortages. Irish consumers may also switch their online shopping from UK sites to EU	**2@6** **3 + 3**

Answer 2021 Q12c (ii)

Suggested responses

Free Trade Area / larger market / trade expansion:
Being a member of the EU allows Ireland access to an increased market size of over 500 million people. These customers can be exported to tariff free. Ireland also benefits from the collective agreements that the EU negotiates with other countries outside the EU. Trade is also made easier within the EU with the removal of barriers / Irish firms can bid for public sector contracts within the EU.

Access to capital / research funding
Ireland has received large amounts of capital funding from the EU throughout its years of membership which has supported activities such as improvement in infrastructure; re-training grants; Erasmus funding with around 50,000 students from Ireland participating in Erasmus since 1987. As part of the European Research Area we can both participate in and benefit from global research and development.

Freedom movement of capital / labour
We have the freedom to live and work in any other member state without the requirement for a visa. Membership allows access to increased study / job opportunities. Irish citizens choosing to work or study abroad can have their Irish qualifications recognised throughout the EU, under the European Qualifications Framework.
Also allows access to EU capital markets.

Foreign Direct Investment / job creation
Ireland operates as an export hub on the doorstep of Europe, this location provides an incentive to American firms to provide FDI into Ireland in order to access this market. Many job opportunities have been created due to our EU membership.

EU legislation and policies
Ireland is protected by the policies and arrangements which the EU has agreed with EU member states and external countries such as the CAP and the Fisheries Policy. Workers and consumers are protected by EU legislation such as the European Health Insurance Card.

Supports the Peace Process in Ireland
EU membership has supported the Peace Process in Northern Ireland through investment in cross-border programmes and the creation of the Northern Ireland Task Force (NITF) and the PEACE Programmes. Since 1995 the programmes have committed approximately €2.26 billion worth of funding Northern Ireland and the Border Region of Ireland.

2@6
3 + 3

(24)

Answer – 2020 sample

Protectionism was a key element of Irish economic policy in the 1950's. Heavy import duties were effective in reducing the balance of payments deficit, developing native industries and moving away from an overdependence on the UK.
However, tariffs made goods more expensive, reducing profit for businesses who relied on imported materials and increasing prices for consumers.

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