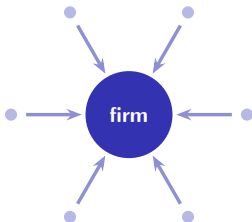


Business and its Environment

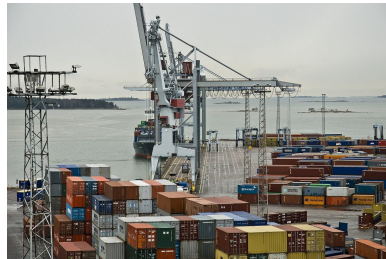
A-Level Business ■ Topic 6

A-Level Business



What we will cover

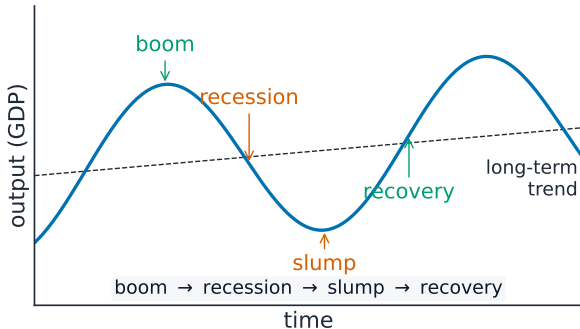
- 1 The business cycle
- 2 Interest & exchange rates
- 3 Inflation, tax & jobs
- 4 PESTLE forces
- 5 Strategy, SWOT & trees
- 6 Recap



globalisation links firms worldwide



The business cycle



The **business cycle** is how the whole economy rises and falls:

- **boom** – fast growth, rising costs
- **recession** – demand & output fall
- **slump** – a deep, long recession
- **recovery** – output rises again

The business cycle, and what a firm does in each phase

boom

demand high, capacity strained – firms **expand**, invest and hire

recession

falling demand and output – **sales drop and some firms close**

in a recession a firm

cuts costs, holds less stock, and may aim only to **survive**

recovery

demand returns; the firms that kept capacity are first to benefit

the sensitive sectors

luxury goods, construction and capital equipment swing hardest

the defensive ones

food, utilities and basic services barely move

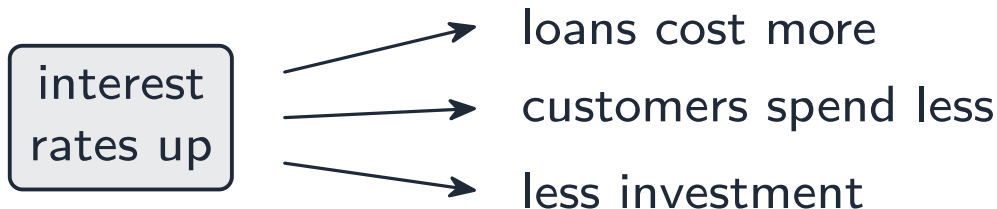
Income elasticity explains which is which. A firm's exposure to the cycle is a fact about **what it sells**, not about how well it is run.

Interest rates

The **interest rate** is the price of borrowing. When it **rises**:

- loans cost more, so customers spend less
- firms with loans earn less profit
- new **investment** is less likely

A fall does the opposite.



Exchange rates

a weak currency helps exporters; a strong one helps importers

appreciation
(currency rises)
exports dearer,
imports cheaper

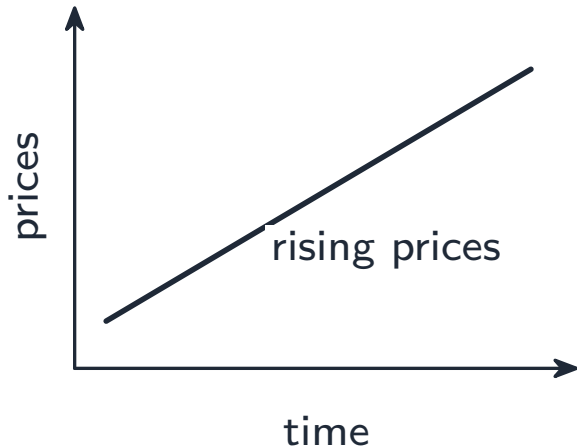
depreciation
(currency falls)
exports cheaper,
imports dearer

The **exchange rate** is the price of one currency in another.

- **appreciation** : exports dearer, imports cheaper
- **depreciation** : exports cheaper, imports dearer

A weak currency helps **exporters** ; a strong one helps **importers** .

Inflation



Inflation is a general rise in prices over time. High inflation:

- raises material & wage costs
- makes planning harder
- cuts what customers can afford

Low, steady inflation suits business best.



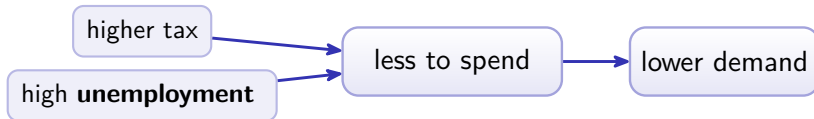
Taxation and unemployment

direct tax

taken from income or profit

indirect tax

added to spending on goods



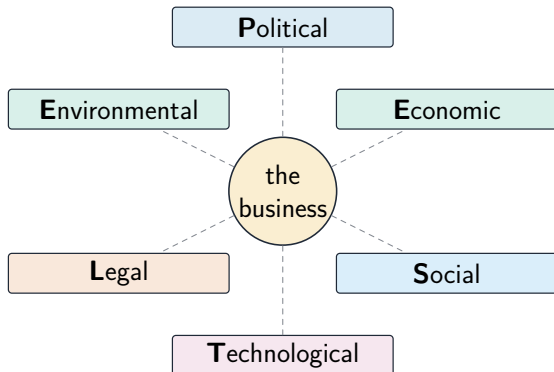
Political, legal and social influences

- **political** – government decisions, trade rules and stability affect how firms plan.
- **legal** – firms must obey **legislation** on employment, consumer safety, competition and the environment. Breaking the law brings fines and bad publicity.
- **social** – changes in society, such as ageing populations or new tastes, change what people buy.

Technological, environmental and ethical influences

- **technological** – new technology can create new products and cut costs, but firms must keep up or fall behind.
- **environmental** – firms face pressure and rules to cut pollution and waste, and to act in a sustainable way.
- **ethical** – acting in a morally right way (fair pay, honest selling) builds trust, even if it costs more.

PESTLE – the six wider forces



A **PESTLE analysis** checks the forces outside the firm:

- **political & legal** – rules & legislation
- **social** – tastes, ageing population
- **technological** – new products, lower cost
- **environmental & ethical** – sustainability, fairness

Multinationals and globalisation



A **multinational** produces and sells in many countries.

- one **global brand** across borders
- must obey each country's laws & tastes
- **globalisation** widens markets but also competition

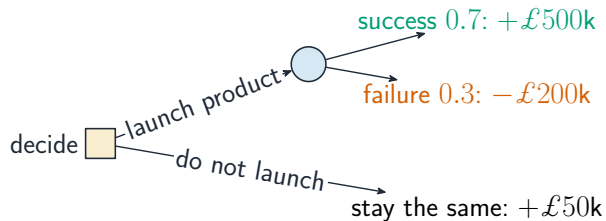


Strategy and SWOT

	helpful	harmful
internal	Strengths what it does well	Weaknesses what it does poorly
external	Opportunities chances to grow	Threats dangers it faces

A **strategy** is a long-term plan to reach the firm's objectives and build a **competitive advantage**. A **SWOT analysis** **SWOT** weighs internal **strengths/weaknesses** against external **opportunities/threats**.

Decision trees



A **decision tree** weighs each choice by the **probability** and payoff of its outcomes.

$$EV = \sum (\text{probability} \times \text{payoff}).$$

Pick the branch with the highest **expected value**, then subtract its cost.

SWOT analysis

	helpful	harmful
internal	Strengths what it does well	Weaknesses what it does poorly
external	Opportunities chances to grow	Threats dangers it faces

SWOT analysis: internal strengths and weaknesses, external opportunities and threats

Exchange rates, interest rates, and the other planning tools

a weaker currency

exports are cheaper abroad and imports dearer – an **exporter** gains

a stronger currency

the reverse – an **importer** gains, and exporters are squeezed

the memory hook

SPICED: Strong Pound, Imports Cheap, Exports Dear

a rate rise

raises the cost of variable-rate borrowing – £8m of loans moving from 2% to 5% costs an extra £240,000 a year

and demand

higher rates also cut consumer spending, so a house-builder is hit twice

decision trees

weigh choices by their **likely results** – probability times payoff, minus the cost

External influences are the ones the firm cannot control, so **strategic management** is about **exposure** to them, not about preventing them.

Exam tips

- Explain how a change in **interest rates, the exchange rate or inflation** affects a firm on both the cost and the demand side.
- A **stronger exchange rate** makes exports dearer and imports cheaper (SPICED / WPIDEC).
- Use **SWOT** correctly: strengths and weaknesses are internal, opportunities and threats are external.
- Support a strategy with a **PEST/PESTLE** scan of the external environment.



Worked example – a stronger pound

The pound appreciates. Analyse the effect on a UK firm that imports components and exports finished goods.

- **SPICED**: Strong Pound $\Rightarrow$ Imports Cheaper, Exports Dearer.
- Imported components cost **less** $\Rightarrow$ costs fall $\Rightarrow$ margins improve.
- Exports are **dearer** in foreign currency $\Rightarrow$ demand falls (how far depends on **PED**).
- Net effect depends on the **import : export mix** and on **how price-sensitive the export market is**.

Never answer “the pound rose so the firm suffers”.
Work out **both** sides – costs and revenue – then judge on the **balance** and on elasticity.

Topic 6 – key takeaways

1

Business cycle

boom, recession, slump, recovery

2

Rates

interest = borrowing cost;
exchange = currency price

3

PESTLE

political, economic, social, tech,
legal, environmental

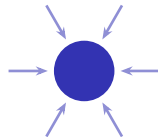
4

Strategy

SWOT & decision trees guide
long-term plans

Check yourself

- 1 Name the four stages of the business cycle.
- 2 A weaker currency helps exporters or importers?
- 3 Income tax: direct or indirect?
- 4 What does the S in PESTLE stand for?



Answers 1. boom, recession, slump, recovery 2. exporters 3. direct 4. social