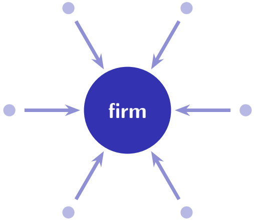
Business and its Environment

A-Level Business ▪ Topic 6

A-Level Business



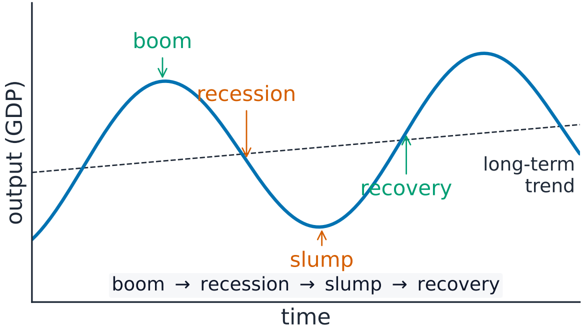
What we will cover

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

1 The economic environment

The business cycle



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

- **boom** 繁荣 – fast growth, rising costs
- **recession** 衰退 – demand & output fall
- **slump** 萧条 – a deep, long recession
- **recovery** 复苏 – 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 衰退	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

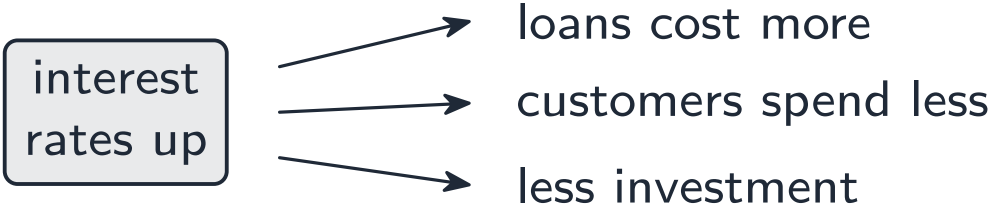
> Income elasticity explains which is which. A firm's exposure to the cycle is a fact about what it sells, not about how well it is run.

Interest rates

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

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

A fall does the opposite.



Exchange rates

a weak currency helps exporters; a strong one helps importers

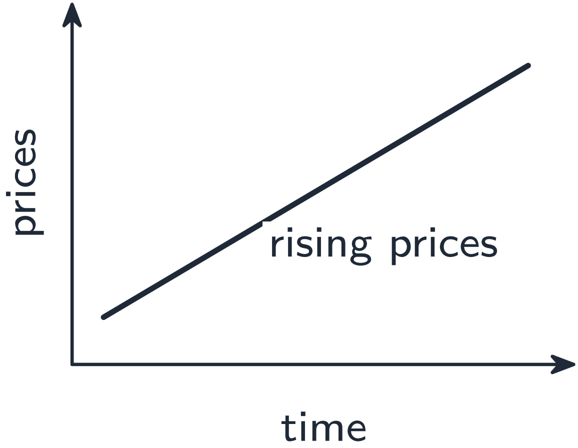
appreciation (currency rises) exports dearer, imports cheaper	**depreciation** (currency falls) exports cheaper, imports dearer

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

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

> A weak currency helps **exporters** 出口商; a strong one helps **importers** 进口商.

Inflation



Inflation 通货膨胀 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.

2 The wider environment

Taxation and unemployment

direct tax 直接税

taken from income or profit

indirect tax 间接税

added to spending on goods

higher tax → less to spend

high **unemployment** 失业 → less to spend

less to spend → lower demand

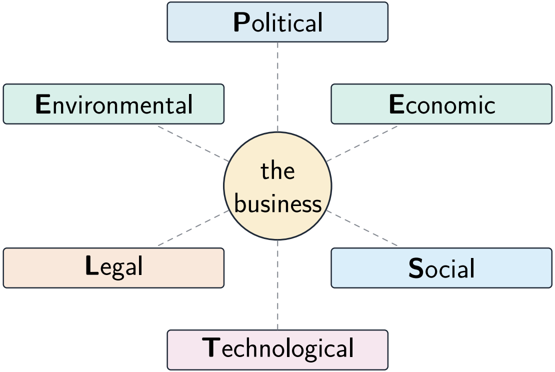
Political, legal and social influences

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

Technological, environmental and ethical influences

- **technological 技术** – new technology can create new products and cut costs, but firms must keep up or fall behind.
- **environmental 环境** – firms face pressure and rules to cut pollution and waste, and to act in a sustainable way.
- **ethical 道德** – 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** 宏观环境分析 checks the forces outside the firm:

- **political** 政治 & **legal** 法律 – rules & **legislation** 法规
- **social** 社会 – tastes, ageing population
- **technological** 技术 – new products, lower cost
- **environmental** 环境 & **ethical** 道德 – sustainability, fairness

Multinationals and globalisation

A **multinational** 跨国公司 produces and sells in many countries.

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

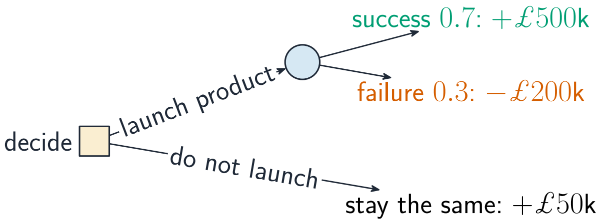
3 Strategic tools

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

Decision trees



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

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

Pick the branch with the highest **expected value** 期望值, 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** 出口商 gains
a stronger currency	the reverse – an **importer** 进口商 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 外部影响 are the ones the firm cannot control, so **strategic management** 战略管理 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.

4 Recap

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 ⇒ Imports Cheaper, Exports Dearer.
- Imported components cost less ⇒ costs fall ⇒ margins improve.
- Exports are dearer in foreign currency ⇒ 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