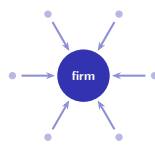


Business and its Environment

A-Level Business • Topic 6

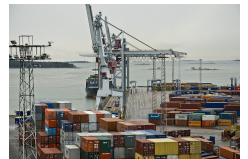
A-Level Business



Business and its Environment

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

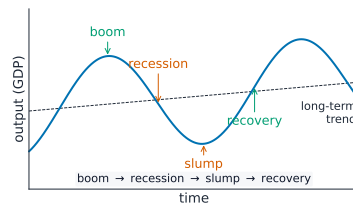
1

The economic environment

Business and its Environment

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

Business and its Environment

The economic environment

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.

Business and its Environment

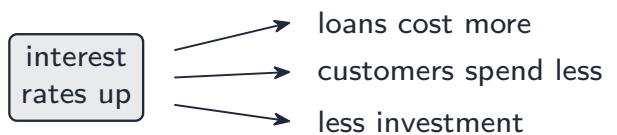
The economic environment

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

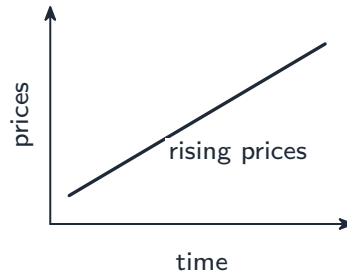
depreciation
(currency falls)
exports cheaper,
imports dearer

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



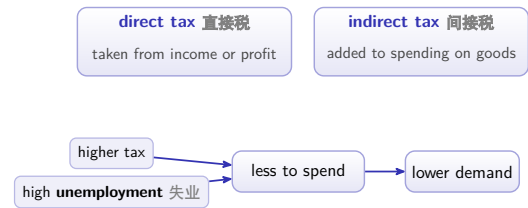
Inflation 通货膨胀 is a general rise in prices over time. High inflation:

- 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



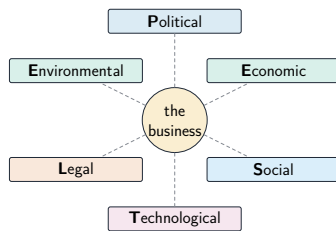
Political, legal and social influences

- **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

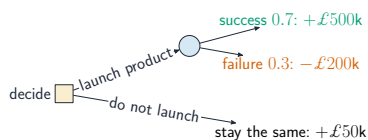
3 Strategic tools

Strategy and SWOT



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

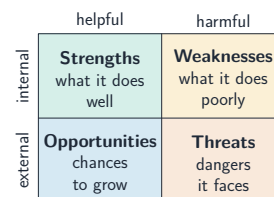


A **decision tree** 决策树 weighs each choice by the **probability** 概率 and payoff of its outcomes.

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

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

SWOT analysis



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

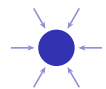
political, economic, social, tech,
legal, environmental

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